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Report of the
AUDITOR GENERAL
to the
Legislative Assembly

Prince Edward Island 2003

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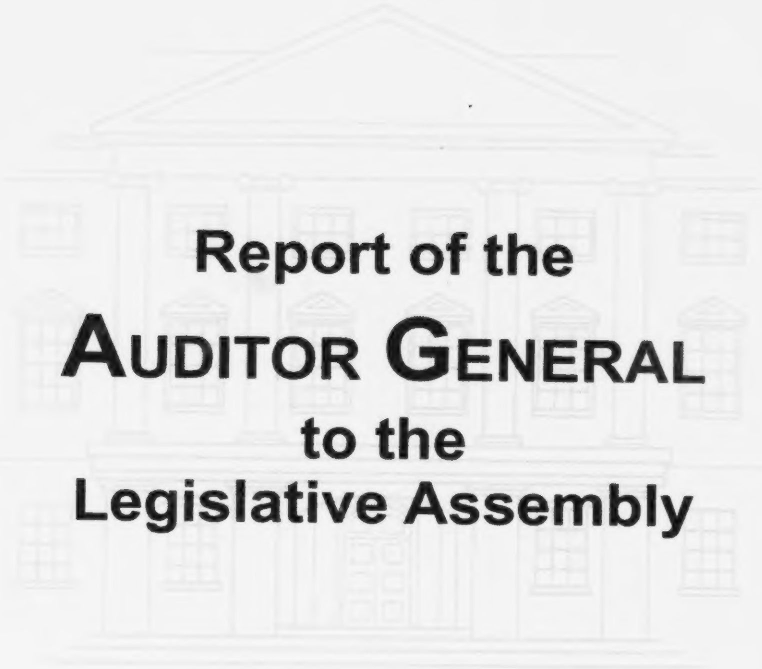

Report of the
AUDITOR GENERAL
to the
Legislative Assembly

Prince Edward Island

2003

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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my Annual Report to the Legislative Assembly.

Respectfully submitted,

Colin Younker, CA
Auditor General

Charlottetown
Prince Edward Island
March 4, 2003

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INTRODUCTION

REPORT OVERVIEW

The Audit Act requires the Auditor General to report annually to the Legislative Assembly. This Annual Report 2003 provides observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year. The purpose of this report is to assist the Legislative Assembly in carrying out its responsibility to hold the government accountable for the management of public resources.

This, my first Annual Report as Auditor General, deals mainly with matters pertaining to the 2001-2002 fiscal year, however, many of the issues identified remain current and are still being addressed by government.

It is not possible to audit all government programs and entities each year, however, the office strives to provide reasonable audit coverage on a cyclical basis. A large portion of the audit work is determined by statutory requirements which name the Auditor General as auditor. These requirements include the annual audit of the Public Accounts of the Province. The remainder of our resources are devoted to special audits and examinations.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** summarizes the results of various examinations conducted during the year including; Highway Maintenance, the Infrastructure Program, Inventory, and Equipment. This year we also conducted a special examination, at the request of Executive Council, on the Governance Structure of the Credit Union Deposit Insurance Corporation Under the Regulatory Framework for Credit Unions. In addition we performed third party verification on the Prince Edward Island Report on Common Health Indicators. The **Financial Statement Audits** section provides information on significant issues arising from the financial statement audits conducted by the Office.

Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the report, **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office, as well as the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office as well as the resources used to achieve them.

ACKNOWLEDGEMENTS

Cooperation of Ministers, Deputy Ministers, Heads of Crown agencies and their staff is important. In carrying out our work we received the necessary information, reports and explanations. I wish to acknowledge this cooperation in the completion of the audits covered in my Annual Report.

I became Auditor General on October 7, 2002 and I look forward to working with a staff who are dedicated and committed. I wish to express my appreciation to them for their efforts and assistance.

Finally, I would like to take this opportunity to acknowledge the retirement of my predecessor, Mr. Wayne Murphy. Mr. Murphy was with the Office for 30 years, serving as Auditor General for 16 of those years. During his tenure he provided valuable information and advice to Government and the Legislative Assembly. Through his work, he made a significant contribution to improved accountability, financial reporting, and management practices, in the public sector.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year we comment on the Province's finances. The financial position of the Province for the most recent fiscal year is discussed and compared over a five year period. To assess the financial condition of the Province it is necessary to focus on the financial results in the Consolidated (Summary) Financial Statements.

1.2 In the last year the Provincial gross domestic product increased by 2.5 percent while the net debt increased by 3.6 percent. However, Prince Edward Island continues to maintain a favourable net debt to GDP ratio and has one of the more favourable net debt per capita ratios in the country.

1.3 The Province incurred a deficit of $37.3 million in 2001-02 compared to a deficit of $34.9 million in 2000-01. In addition, a deficit is projected for 2002-03. These recurring deficits indicate Government is spending beyond its means and will result in a higher debt load to service in the future.

BACKGROUND

1.4 The Public Accounts record the government's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse government programs and entities with total expenditures of over $1 billion.

1.5 As in previous years, we are providing information to help put the numbers into perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition. The Province's finances have a significant impact on the Provincial economy. It is essential that Members of the Legislature are provided with information to enable them to understand and debate the financial affairs of the Province.

1.6 This discussion of the Province's finances is based on the Consolidated (Summary) Financial Statements, which include departments, the Special Projects Fund, Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.7 Some of the common terms used to describe the Province's financial condition are presented below.

1.8 The **annual surplus or deficit** is the difference between a government's revenues and expenditures. This measure shows the extent to which revenues raised in the year were sufficient to meet expenditures in that year. For the year ended March 31, 2002, the Province incurred a deficit of $37.3 million.

1.9 The **total debt** is the amount owed by the government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2002 was $1.6 billion.

1.10 **Financial assets** are cash and other assets convertible to cash which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2002 were $561 million.

1.11 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2002 was $1.082 billion.

1.12 The **interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs.

1.13 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada.

1.14 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past five years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY FINANCIAL INFORMATION
(Millions)

	2002	2001	2000	1999	1998
Surplus (Deficit)	**$ (37.3)**	$ (34.9)	$ 12.4	$ 28.1	$ (6.3)
Net Debt	**1082.1**	1044.8	1009.9	993.8	1021.9
Debt Charges	**107.1**	107.8	102.7	101.4	101.9
GDP	**3,480**	3,394	3,173	2,981	2,800

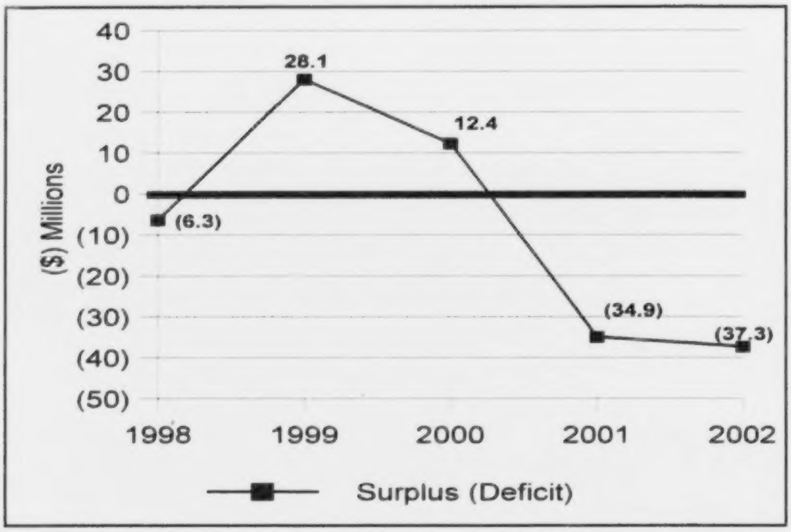
1.15 Over the past few years we have reported on certain key indicators of government's finances. These have been defined in the Research Report entitled, *Indicators of Government Financial Condition* published by the Canadian Institute of Chartered Accountants. The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators provide useful information to assess the financial condition of the Province.

Sustainability

1.16 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the government's annual surplus or deficit, net debt and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and generating revenues.

1.17 The annual deficit or surplus indicates the extent to which a government spends more or less than what it raised in revenue in a particular year. It basically shows whether Government is living within its means. **Exhibit 1.2** shows the annual surplus or deficit for each of the past five years.

EXHIBIT 1.2
THE GOVERNMENT'S ANNUAL SURPLUS/DEFICIT

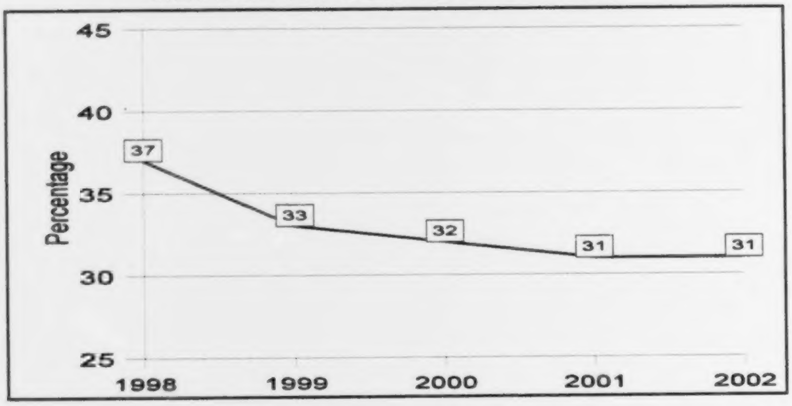


1.18 The net debt is the difference between Government's total liabilities and its financial assets. Since 1998 the net debt increased by $60 million or 6 percent and totalled $1.082 billion at March 31, 2002.

1.19 The GDP of the Province indicates the size of our economy. The Province's economy supports government operations through taxes and fees. Prince Edward Island has experienced steady growth in the economy in recent years. While the net debt has increased by 6 percent since 1998, the GDP of the Province increased by 24 percent and government's ordinary expenditures increased by 32 percent during the same period.

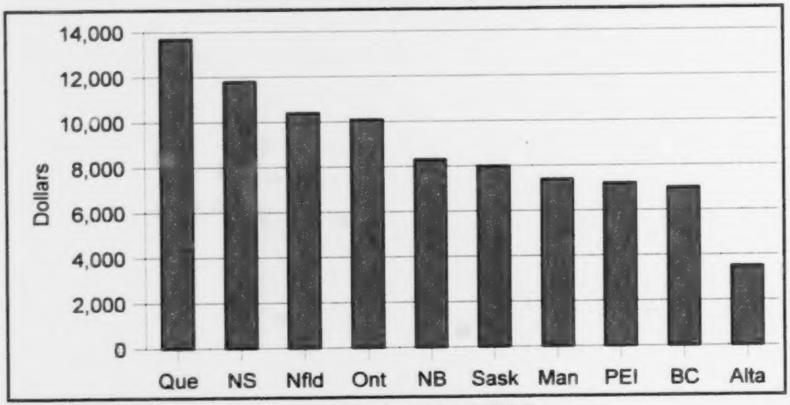
1.20 **Exhibit 1.3** shows the net debt to GDP ratios since 1998. Even though, in 2001-02, the Province incurred a deficit of $37.3 million and the net debt increased, the economy has continued to grow and the net debt to GDP ratio has remained steady. However, it should be noted that the rate of decline of the percentage has slowed due to the deficits incurred in the last two years.

EXHIBIT 1.3
NET DEBT AS A PERCENT OF GDP



1.21 To help put this information into perspective, it is useful to compare our net debt per capita with other provinces. The Ministry of Finance for British Columbia provided the information in **Exhibit 1.4** in its *Debt Statistics* report for the fiscal year 2001-02. The information is adjusted for interprovincial comparison and is presented on a different basis than our Public Accounts. However, it does provide a basis for assessment relative to the other provinces. It shows that as of March 31, 2002 the Province had the third lowest net debt per capita in the country.

EXHIBIT 1.4
INTERPROVINCIAL COMPARISON OF TAXPAYER SUPPORTED NET DEBT PER CAPITA
AS AT MARCH 31, 2002*



***Source: Moody's Investors Service, May 2002.**

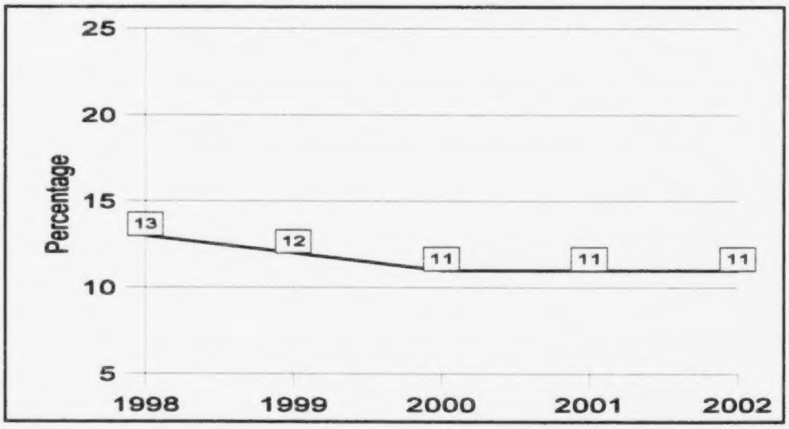
Flexibility

1.22 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions such as a recession or higher interest rates without making substantial changes to the way it operates.

1.23 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services. In the current year, the debt burden increased and debt charges decreased slightly.

1.24 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite". In 2001-02, debt charges on government borrowings were $107.1 million. The trend in the interest bite is shown in **Exhibit 1.5**.

EXHIBIT 1.5
INTEREST COSTS AS A PERCENT OF REVENUE



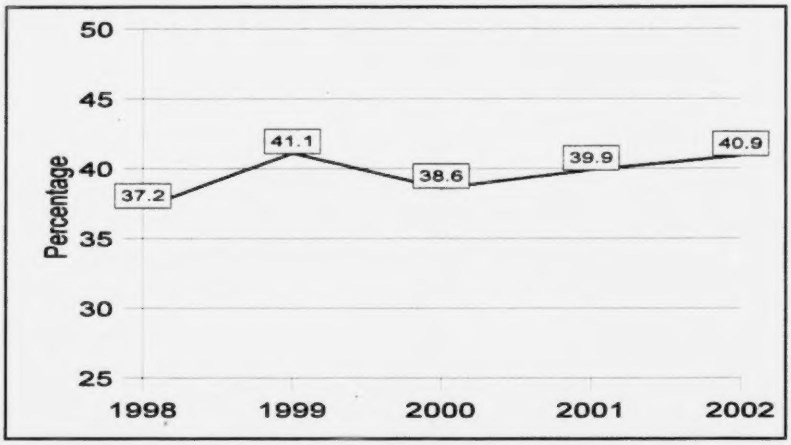
1.25 As indicated in **Exhibit 1.5**, the interest bite has declined from 13 percent in 1998 to 11 percent for the current year. Our net debt is over a billion dollars and the first $107.1 million must be earmarked to pay interest costs and is unavailable for government programs.

1.26 In 2002 the Province recorded interest expense on the pension benefits liability for the first time. The total amount of interest expense for pension and other related obligations was $15.7 million. The $15.7 million was included in the pension adjustment amount and in employee benefits. It was not included in debt charges. Had the amount been included in debt charges the interest bite would have increased to 12 percent.

Vulnerability

1.27 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. In 2001-02, the federal government provided approximately $410 million to the Province, an increase of $27 million from 2000-01. Since 1998 federal source revenues have increased by $112 million or 37 percent. This compares to an 18 percent increase in provincial source revenues over the same time period. This trend in federal transfers relative to total revenues for the last five years is shown in **Exhibit 1.6**. This exhibit shows that approximately 41 cents of each dollar of revenue received by the Province in 2001-02 came from the federal government.

EXHIBIT 1.6
FEDERAL TRANSFERS AS A PERCENT OF TOTAL REVENUE



1.28 Revenue from provincial sources is more controllable through, for example, Provincial tax legislation or adjustments in user fees. Federal transfers are subject to different variables such as federal fiscal policies and the performance of other provincial economies. Any federal fiscal policy change could possibly have a serious impact on the Province.

SUMMARY

1.29 It is important for Members of the Legislative Assembly to have a regular update on the financial condition of Government. This section provides summary information using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators help to put the finances of government into perspective and assist Members to understand and interpret the information.

1.30 Further to the above discussion, we recognize that there are other relevant non-financial matters which have to be taken into consideration by Members of the Legislative Assembly in making budgetary decisions and setting government policy direction.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 Subsection 13(2) of the Audit Act states that the Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions.

2.2 It is not possible to audit all Government programs each year due to the size and complexity of its operations. Therefore, audits are conducted on a cyclical basis. In determining the annual audit program for the Office many factors are considered such as the results of previous audits, financial impact, and significance to the Legislature.

2.3 Special audits and examinations are conducted in accordance with standards established by the Canadian Institute of Chartered Accountants. These types of audits are conducted in a series of stages. During the planning phase information is gathered to gain an understanding of the program or entity, and an audit plan is prepared. Evidence is obtained and analyzed and observations and recommendations are developed in the implementation phase. In the reporting phase a draft report is issued to the auditee for discussion. At the conclusion of the audit, a final report is issued to the department or agency and a written response is requested.

2.4 This year we are also reporting on a review of the regulatory framework for credit unions in PEI with particular emphasis on the governance structure of the Credit Union Deposit Insurance Corporation. This was a special assignment requested by Executive Council, under Section 14 of the Audit Act.

2.5 During the year we also reported on the results of applying specified auditing procedures to the Prince Edward Island Report on Common Health Indicators. Our work did not constitute an audit and we did not express an opinion on the Report.

2.6 Our work involves providing recommendations to management to address problems identified. We do not however infringe on management's right to select the most appropriate course of action to deal with the problems identified. We are primarily concerned that the issues raised are satisfactorily addressed.

2.7 Under Section 16 of the Audit Act, the Auditor General is required to call attention to any matters which he considers necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following: Governance Structure of the Credit Union Deposit Insurance Corporation Under the Regulatory Framework for Credit Unions; Highway Maintenance; Infrastructure Program; Verification of the Prince Edward Island Report on Common Health Indicators; Inventory; and Equipment.

3. THE GOVERNANCE STRUCTURE OF THE CREDIT UNION DEPOSIT INSURANCE CORPORATION UNDER THE REGULATORY FRAMEWORK FOR CREDIT UNIONS

OVERALL COMMENTS

3.1 The Auditor General was requested by Executive Council to conduct a review of the regulatory framework for credit unions in Prince Edward Island with particular emphasis on the governance structure of the Credit Union Deposit Insurance Corporation (CUDIC) and report his findings and recommendations to the Attorney General, who shall convey them to Executive Council. Our report was forwarded to the Attorney General as requested.

3.2 In the late 1980s the credit union system had been seeking government support in providing deposit insurance to members so that the credit unions would be on an equal footing with other federally regulated financial institutions which were insured through the Canada Deposit Insurance Corporation. Significant amendments were made to the Credit Unions Act in 1992, including the establishment of CUDIC which guarantees the repayment of insurable deposits in credit unions based on levels established in the Act. Further, the Act states that government shall ensure that the obligations of CUDIC are carried out.

3.3 A number of factors led to the request for this review. The governance structure of CUDIC and the interrelationship with other parties within the regulatory framework had not been revisited since CUDIC was established in 1992. Since that time credit unions have become larger more complex financial institutions, and insurable deposits have increased substantially. In addition, public expectations in general have changed and governing bodies are being held to a higher standard of accountability.

3.4 In my Annual Report, I am providing overall comments and background information on the review as well as a summary of the significant observations and recommendations included in the report.

3.5 Although our review did not include an assessment of the financial condition of each credit union, it is evident that the credit union system overall has experienced substantial growth and fulfils an important role in providing financial services within Island communities. Our review resulted in a number of recommendations on governance and regulatory issues which, if implemented, will improve the governance structure and processes in place over CUDIC, improve the financial reporting of credit unions, and assist to strengthen the regulatory framework within which credit unions must operate.

3.6 In carrying out our work, we received excellent cooperation from the Board of Directors of CUDIC. In addition, there are a number of other parties under the regulatory framework and we would like to acknowledge their input and cooperation in conducting our review.

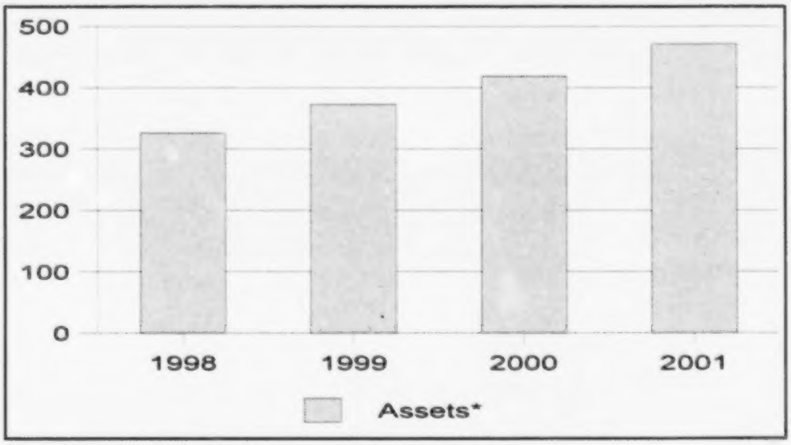
BACKGROUND

3.7 All of the ten Island credit unions are insured by CUDIC. In general, members' deposits in each credit union are insured up to $60,000 while deposits in Registered Retirement Savings Plans and Registered Retirement Income Funds are fully insured. Similar to other deposit insurance corporations, the member institutions pay a premium designed to contribute to an insurance fund and finance operations of the deposit insurance corporation.

3.8 At its inception in 1992 CUDIC insured deposits of $108 million. By September 30, 2001 that amount had increased to $370 million. The deposit insurance fund held by CUDIC totalled $3.6 million at December 31, 2001.

3.9 Credit union assets have increased significantly in recent years and at September 30, 2001 totalled nearly $472 million as illustrated in **Exhibit 3.1**.

EXHIBIT 3.1
CREDIT UNION ASSETS
(Millions)



***Source: Credit Union Central Annual Reports**

Current Regulatory Framework

3.10 The Credit Unions Act establishes four main parties within the credit union system; the credit unions, Credit Union Central, the Registrar, and the Credit Union Deposit Insurance Corporation.

3.11 The Act defines the requirements for incorporation and operation of a credit union. It sets out parameters for credit union operations, accountability, and reporting requirements to members. Each credit union is a separately incorporated financial institution.

3.12 Credit Union Central provides financial and banking services for member credit unions, acts as a trade association in providing services to the credit unions, approves the by-laws for credit unions, and has a role in credit approval. In addition, under Section 104 of the Act, Central is required to carry out examinations relative to the management of the affairs and the general financial condition of each credit union. Under the Credit Unions Act, Credit Union Central is charged with the administration of the Act. Prince Edward Island is the only Province where the Credit Union Central is charged with administration of the legislation governing the operation and regulation of credit unions.

3.13 The Registrar of credit unions is appointed by the Lieutenant Governor in Council and has certain responsibilities under the Act. The Registrar is primarily responsible for maintaining the formal records for all credit unions and Credit Union Central including the applications for the granting, alteration, suspension, and cancellation of certificates of incorporation and dissolution of credit unions. The Registrar is a representative of government and has a number of specific powers under the Act.

3.14 The fourth party established under the Credit Unions Act is the Credit Union Deposit Insurance Corporation. The objects of the Corporation are outlined in the Act and relate primarily to the monitoring of credit unions and the administration of the deposit insurance fund. Deposit insurance is designed to provide security for deposits. The Act, under Section 173, specifically states that government will ensure that the obligations of the Corporation, in terms of the repayment of insurable deposits, are fulfilled. Each of the ten credit unions pays an annual assessment based on insurable deposits which is used by the Corporation to augment the Deposit Insurance Fund.

OBJECTIVES AND SCOPE

3.15 In accordance with Section 14 of the Audit Act we were requested by Order of Executive Council to "undertake a review of the regulatory framework for credit unions in Prince Edward Island, with particular emphasis on the governance structure of the Credit Union Deposit Insurance Corporation."

3.16 We focused on the legislative requirements within the Credit Unions Act of Prince Edward Island. We reviewed the Act to gain an understanding of how the credit union system operates on PEI and the interrelationships among the various parties named in the legislation. We assessed the governance structure and process in place at CUDIC and reviewed the process used by CUDIC to monitor the financial condition of credit unions. We excluded from our review the sections of the Act related to operational requirements for credit unions, shares and membership, and the operational requirements for Credit Union Central. Our work was not designed to provide assurance that the Credit Unions Act is being complied with. We did not assess the financial condition and liquidity of the credit unions or the system as a whole.

3.17 In carrying out our review, we interviewed the Registrar of credit unions, members of the Board of CUDIC, a number of credit union managers, as well as other persons with specific responsibilities under the Act. In addition, we reviewed background documentation and Executive Council submissions related to the establishment of CUDIC, reviewed relevant legislation in other provinces, contacted other provinces on specific questions, reviewed CUDIC Board minutes, and numerous other sources of information related to financial institutions, governance, and regulatory matters in general.

3.18 Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

PRINCIPAL FINDINGS

Credit Union Deposit Insurance Corporation Governance Structure

3.19 The Credit Union Deposit Insurance Corporation was established under the Credit Unions Act. Under Section 162, the Act states that the Board of Directors shall be appointed by the Lieutenant Governor in Council and shall consist of:

a) two members nominated by the Minister (who is the Attorney General); and
b) three members nominated by the Board of Directors of Credit Union Central.

Appointment Terms

3.20 Under the legislative requirements there is no set term of appointment for Board members. With the exception of one member who resigned in 2001, the Board of Directors of CUDIC consists of the same members originally appointed in 1992. The other Boards established by this Act, the Boards of Credit Unions and Credit Union Central, have by-laws which set the appointment term at three years with the opportunity for reappointment.

3.21 The need for specific appointment terms was raised as an issue in each of our interviews with members of the Board of CUDIC. It is in the best interests of the Board as well as the individuals serving on the Board that there be some limitation on the appointment term for Board members. Setting an appointment term with the opportunity for reappointment necessitates a review of the composition of the Board at a specific point in time. The orderly reappointment allows for an orientation of new members to the Board and enables the selection of new strengths to the Board as required.

Recommendation

3.22 The Credit Unions Act should be revised to require Board members to hold office for a specified term.

Eligibility of Board Members

3.23 The Credit Unions Act does not set eligibility requirements for nominations for appointments to the Board of CUDIC. Eligibility requirements provide an objective basis for screening potential Board members and can be used to help avoid conflict of interest situations. We noted other sections of the Credit Unions Act dealing with Boards of Credit Unions and Credit Union Central provide a standard list of eligibility requirements for their Board members.

3.24 Further, the standard credit union by-laws state that no member is eligible to be a director who:

- is a director of another credit union;
- is a professional advisor to a credit union;
- is employed in the public service of the Province and whose duties are directly concerned with the business or affairs of credit unions or Credit Union Central;
- is an employee of a credit union;
- is an employee of Credit Union Central; or
- is an employee of the Corporation (CUDIC).

3.25 An individual who is employed as a credit union manager within the credit union system, has been nominated for appointment to the Board of CUDIC. We found that the other Atlantic Provinces specifically disallow an employee of a credit union or Credit Union Central from being appointed to the Board of the Credit Union Deposit Insurance Corporation.

3.26 One of the objects of CUDIC is "to adopt measures designed to obviate or to minimize the risk and the size of claims against a credit union." Therefore CUDIC has a role in monitoring and assessing the financial condition of each credit union. There is a potential for a conflict of interest where an employee is participating in this monitoring and assessment process.

3.27 During our review we also noted that in Nova Scotia and Newfoundland the legislation disallows not only employees, but also directors of credit unions and Credit Union Central from being appointed to the Board of the Credit Union Deposit Insurance Corporation. Given that three of the five CUDIC board members are nominated by the Board of Credit Union Central, consideration should be given to restrictions regarding the appointment of credit union and Credit Union Central directors to the Board of CUDIC.

Recommendation

3.28 Eligibility requirements for the appointment of members to the Board of Directors of the Credit Union Deposit Insurance Corporation should be established and should specifically exclude employees of credit unions, Credit Union Central, and CUDIC.

Qualifications

3.29 Although we did not evaluate the background, experience or education of current Board members, we saw no evidence for concern in this regard. However, we noted there are no guidelines for qualifications when making appointments to the Board of CUDIC. We are not suggesting that a mandatory prescribed formula is necessary, however, credit unions today are large financial institutions offering a full range of services. As credit union deposits grow, the potential exposure of CUDIC increases. In order to monitor the financial condition of these complex organizations, we would expect that minimum qualifications for Board members would be established. Strong financial expertise is an important attribute for Boards of this nature and our interviews with Board members supported this view.

Recommendation

3.30 Guidelines on the desirable qualifications and attributes of prospective Board members should be developed and considered in the nomination process.

Board Development

3.31 The current Board of CUDIC was appointed in 1992 and, except for the current vacancy, has remained unchanged since that time. In our interviews with Board members it was evident that some uncertainty exists around the specific authority of the Board and responsibilities of individual Board members.

3.32 We were advised that since its inception the Board has not conducted a review of its role in the context of the changing environment and expectations of government.

3.33 Where there is periodic turnover of a Board it can provide an opportunity for Board renewal which benefits existing as well as new members. However, even with a consistent Board membership, it is incumbent on the Board to create opportunities for Board development and review.

Recommendation

3.34 The Board should establish a process for periodic review of the role and function of the Board in fulfilling its responsibilities under the Credit Unions Act.

Board Policies

3.35 As a result of our work, we noted that the CUDIC Board does not have a documented policy manual. Decisions related to particular policy issues are documented in the Board minutes when they arise. These decisions span the time since inception of the Corporation in 1992. Identifying and summarizing these policy decisions into a documented policy manual would contribute to a more informed Board of Directors and provide a basis for periodic review of Board policy.

Recommendation

3.36 The Board of the Credit Union Deposit Insurance Corporation should document approved policies in a policy manual and update the manual as required.

3. The Governance Structure of the Credit Union Deposit Insurance Corporation under the Regulatory Framework for Credit Unions

Role of the Credit Union Deposit Insurance Corporation

3.37 The objectives of the Credit Union Deposit Insurance Corporation are specified in the Act as follows:

a) *to guarantee the repayment of deposits held with credit unions in accordance with Section 173;*
b) *to adopt measures designed to obviate or minimize risk and the size of claims against a credit union;*
c) *to stabilize credit unions in financial difficulties and to provide assistance from the Credit Union Deposit Insurance Fund to such credit unions for the purpose of continuing operations or the orderly liquidation of operations;*
d) *to administer the Credit Union Deposit Insurance Fund for the purposes of this Act and to invest the same in such securities as the Board may determine;*
e) *where so appointed by the Minister to supervise and administer the business and affairs of a credit union;*
f) *to purchase all or any of the assets and assume all or any of the liabilities of credit unions that are in the process of liquidation;*
g) *where so appointed, to act as the liquidator of a credit union; and*
h) *to assist credit unions to avert or alleviate financial difficulties by advising them on their business practices.*

3.38 To carry out its objectives, CUDIC should receive sufficient appropriate and timely information on the financial condition of each credit union. Because the information is used for monitoring, we looked for the information to be objective and demonstrate a high degree of reliability.

3.39 The information provided to CUDIC on a regular basis for monitoring purposes consists of an annual inspection report for each credit union, an annual financial statement of each credit union, and summary financial statistics comparing each credit union and the overall system to established benchmarks.

Inspection Function

3.40 The primary information provided to CUDIC for monitoring is the detailed inspection reports. The inspector visits each credit union annually and conducts a review focusing on the loan portfolio. File reviews are conducted on specific loans with particular attention to larger loans and loans in arrears. The inspector provides analysis and statistical results including comparisons to established targets, all of which are key to appropriate monitoring of the financial condition of the credit unions.

3.41 Under the Credit Unions Act, Credit Union Central is required to carry out an examination of each credit union and provide a copy of the inspection report to CUDIC. In each of the other Atlantic Provinces the deposit insurer or the superintendent/registrar of credit unions is responsible for conducting an inspection on each credit union.

3.42 On Prince Edward Island the inspector is an employee of Credit Union Central and also has a role in credit approval. Each credit union manager authorizes loans up to an established maximum amount. Loans exceeding this amount are forwarded to Credit Union Central where the inspector authorizes loans up to a certain level.

3.43 The background papers supporting the establishment of CUDIC indicate it was the original intention of government for CUDIC to employ its own inspector. However, Credit Union Central proposed to provide the inspection services for CUDIC on a contract basis. An annual fee is paid by CUDIC to Central for these inspection services.

3.44 In summary, under the legislation CUDIC is charged with the responsibility to monitor the financial condition of credit unions. In order to fulfil that responsibility, CUDIC Board members must satisfy themselves that the information they receive is objective. The Board of CUDIC currently relies on the reports of the inspector in providing oversight and monitoring of the credit unions. The inspector is employed by Credit Union Central, reports through Central, and is involved in the credit approval process.

Recommendation

3.45 The Credit Unions Act should be amended to provide an inspection function that is controlled by the Credit Union Deposit Insurance Corporation.

Board Meetings

3.46 We were advised that inspection reports are reviewed in some detail by the Board of CUDIC and comparisons to established benchmarks are considered. The Board meets approximately four to five times per year. We noted, however, that extended delays have occurred between Board meetings particularly between Spring and Fall. For example, in 1999 the Board met May 31, 1999 and then not again until February 1, 2000. In 2001 the Board met June 4, 2001 and not again until November 19, 2001. When meetings occur infrequently, there is a risk that the Board may be unaware of problems developing which require action.

3.47 The inspection reports are prepared throughout the year as each inspection is completed. By necessity a number of reports accumulate and are grouped and presented at a Board meeting. When Board meetings are irregular the information presented is no longer timely. For example, the inspection reports presented in February 2000 dated as far back as April 1999.

Recommendation

3.48 The Board of Directors of the Credit Union Deposit Insurance Corporation should meet regularly to review monitoring information on the credit unions.

Authority for Enforcement

3.49 It is important for CUDIC to have clearly established authority to take enforcement action. It is in the interests of all credit unions to be confident that each credit union is held to the same standards. Where a credit union has not yet achieved the standards there should be a sense of rigor in moving that credit union towards compliance.

3.50 It is clear from the Credit Unions Act that CUDIC has the authority to take action when a credit union is in financial difficulty. Subsection 78(3) of the Act states that a credit union which does not maintain liquid assets as required in the by-laws, may be placed under supervision or administration by the Corporation. Further the Act, under Section 174, gives CUDIC the authority to cancel the deposit insurance of a credit union if certain conditions are not met. Under another section, if CUDIC receives a report from the inspector that the affairs of a credit union are not in satisfactory condition, it can take possession of the property, conduct its business and take steps toward the removal of the causes and conditions which made the proceedings necessary.

3.51 The Credit Unions Act authorizes CUDIC to make by-laws prescribing standards of sound business and financial practice. Two by-laws have been approved by CUDIC, which prescribe standards and state that CUDIC may impose conditions on a credit union.

3.52 From our interviews, however, Board members expressed concerns regarding appropriate action to be taken by CUDIC prior to placing a credit union under supervision. Members of the Board felt it would be useful to establish a graduated approach to address varying levels of risk.

Recommendation

3.53 The Board of Directors of the Credit Union Deposit Insurance Corporation should develop a Board policy which sets out actions to be taken for certain categories of risk associated with deteriorating financial condition of a credit union.

External Financial Audit

3.54 The Credit Unions Act requires each Credit Union to appoint an auditor. It states that the financial statements published by the credit union are not to be distributed without the signature of the directors and the report of the auditor. Section 93 of the Act defines a person qualified to be an auditor as an inspector or a public accountant.

3.55 The current report of the inspector, who is employed by Credit Union Central, indicates that the inspector is responsible to express an opinion on the financial statements based on a review of the financial information provided by each credit union. This does not constitute an external financial statement audit, which is a generally accepted standard for financial accountability among private sector, public sector, as well as non profit organizations. We found that credit unions in all other provinces are subject to an external financial statement audit.

3.56 Until March 27, 2001 the Credit Unions Act required financial statements of credit unions to be prepared in accordance with accounting principles and practices approved by CUDIC. Subsequent to an amendment effective March 27, 2001, the Credit Unions Act requires that, except as otherwise permitted by CUDIC, the financial statements of credit unions shall be prepared in accordance with generally accepted accounting principles. Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. They encompass specific rules embodied in the Canadian Institute of Chartered Accountants (CICA) Handbook, as well as practices, procedures and conventions of general application.

3.57 The current method of reporting on the financial statements of credit unions consists of an opinion signed by the inspector that the financial information is fairly presented. It does not, however, provide adequate assurance that the financial statements are prepared in accordance with generally accepted accounting principles.

3.58 Under the Public Accounting and Auditing Act of PEI, reporting on financial statements is considered public accounting and auditing and this practice is restricted to public accountants as defined under that Act.

Recommendation

3.59 Each credit union should be subject to an annual external financial audit. The Credit Unions Act should be amended to require a credit union auditor to be a public accountant as defined under the Public Accounting and Auditing Act.

Deposit Insurance Fund

3.60 The Credit Union Deposit Insurance Corporation maintains a deposit insurance fund which at December 31, 2001 amounted to $3.6 million. Under the Act CUDIC guarantees, up to established limits, the repayment of insurable deposits held in credit unions. In addition, under Section 168 it has the authority to levy a periodic assessment on each credit union. The assessment rate has been set at one-seventh of one percent of insurable deposits to be paid each year by each credit union.

3.61 Under Section 169 of the Act, the Board of CUDIC may invest the amounts held in the Deposit Insurance Fund in such classes of securities as the Board may approve. In January 1998, the Board approved a policy for the investment of surplus funds. We were advised that the fund balance is held on deposit in Credit Union Central.

3.62 It is important for CUDIC to identify investments that will not be subject to the same risks in the same time frame as the credit unions. If a situation arises where CUDIC must draw down the fund to stabilize a credit union, the funds must be available when required. On the other hand it is in the best interests of CUDIC to attempt to maximize earnings on the Deposit Insurance Fund within clearly defined parameters. As the Fund grows in dollar value, these decisions become more onerous.

Recommendation

3.63 The Board of the Credit Union Deposit Insurance Corporation should re-examine the investment policy for the deposit insurance fund and consider introducing diversification into the portfolio.

Accountability Reporting

3.64 Under Section 176 of the Credit Unions Act, CUDIC is required to report annually to the Minister by providing a copy of its financial statements accompanied by an audit report and an annual report of the Corporation. We found that the annual report of CUDIC consists of the audited financial statements and a brief report on the results achieved during the year.

3.65 One of the objects of the Corporation is to administer the Credit Union Deposit Insurance Fund and to invest in such securities as the Board may determine. We noted the annual report refers to the size of the Deposit Insurance Fund but does not indicate how it is invested. Nor does it report on the results of monitoring the performance of credit unions.

Recommendation

3.66 The annual report of the Credit Union Deposit Insurance Corporation should include additional information resulting from the monitoring of credit unions and the administration of the Deposit Insurance Fund.

MANAGEMENT RESPONSE

3.67 The Office of the Attorney General advised that the report has been forwarded to Executive Council.

4. HIGHWAY MAINTENANCE

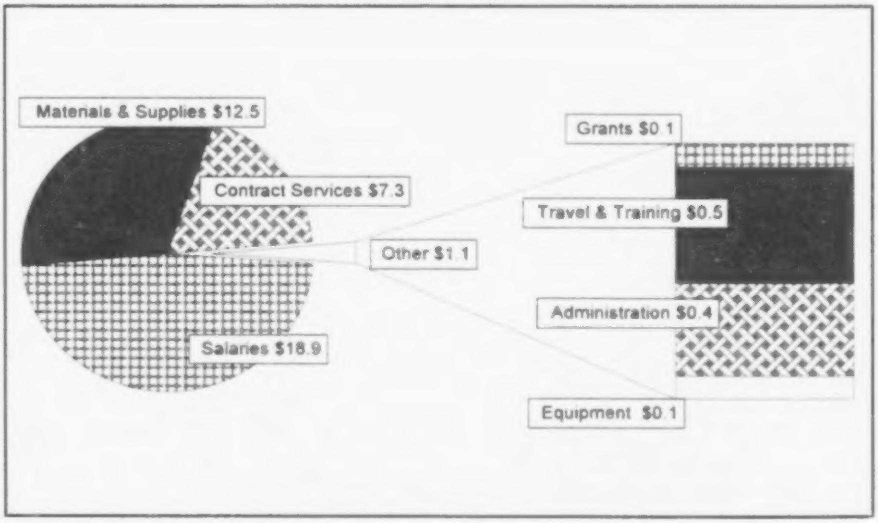
BACKGROUND

4.1 Highway Maintenance is a division of the Department of Transportation and Public Works. The Roads Act assigns responsibility to the Minister of Transportation and Public Works for the maintenance of roads, highways and bridges in the Province.

4.2 Maintenance of the road network on PEI is directed toward accommodating the road user with a safe and convenient riding surface; preserving the investment in the road network; utilizing the resources of manpower, equipment and materials as effectively as possible; and providing a uniform level of quality service across the Province.

4.3 The 2001-02 operating expenditures for the Highway Maintenance Division were $39.8 million. In addition $6.7 million was paid from the capital accounts for highway maintenance activities including ditching, recapping, equipment and culverts. Approximately 50 percent of highway maintenance expenditures are for salaries. A distribution of the operating expenditures is included as **Exhibit 4.1**.

EXHIBIT 4.1
HIGHWAY MAINTENANCE DIVISION
2001-02 OPERATING EXPENDITURES
(Millions)



4.4 The Highway Maintenance Division is organized with the three county superintendents reporting to the Director. Kings and Prince counties are each divided into five zones and Queens currently has six zones. A zone supervisor is responsible for highway maintenance within each zone.

OBJECTIVES AND SCOPE

4.5 In accordance with Section 13 of the Audit Act, we conducted an examination of the Highway Maintenance Division of the Department of Transportation and Public Works. Our objective was to assess the management practices and procedures used by the Division. We did not audit expenditures related to Bridge Maintenance, the Confederation Trail or Highway Enhancement. We did not audit the operations of the Mechanical Branch, however, we considered the expenditures of the Branch in calculating the costs of summer and winter maintenance activities.

4.6 Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. In conducting our work we interviewed staff throughout the Division, reviewed various contracts, analyzed expenditures for the 2001-02 fiscal year, and examined various reports, documents and files. As well, we reviewed the pavement patching program for 2002-03.

DETAILED AUDIT OBSERVATIONS

Highway Maintenance Planning

4.7 To demonstrate accountability, the Division should have a plan and report on results achieved in relation to the plan. We found that the Division does not have a documented plan.

4.8 The Division has prepared an overview which includes; responsibilities, service delivery methods, facilities, human resources, financial resources, and management priorities. However, the overview does not provide objectives and results expected to be achieved by the Division.

4.9 The Department provides an annual report to the Legislature which includes detailed information on the activities of the Highway Maintenance Division. However, the Report does not include stated measurable objectives with a comparison to actual results achieved. Without this information it is difficult to get a sense of how well the Division is performing.

4.10 The Highway Maintenance Division has an annual operating budget of approximately $39 million. It serves the residents of Prince Edward Island, and provides a transportation network for businesses and visitors. It is not unreasonable to expect specific objectives to be established, measured and reported on.

Recommendation

4.11 The Highway Maintenance Division should prepare a plan which sets out measurable objectives. The annual report should show the results achieved compared to the objectives.

Summer Maintenance

4.12 Highway maintenance activities are divided between summer and winter operations. Summer maintenance activities are carried out on both paved and unpaved roads. Expenses related to summer maintenance activities were approximately $24.6 million in 2001-02.

Planning for Pavement Maintenance

4.13 Pavement maintenance is one of the primary functions carried out by the Highway Maintenance Division. It requires a significant investment in materials, labour and equipment. The Division spent approximately $6.6 million on pavement maintenance in 2001-02.

4.14 The Division has developed a planning process to prioritize pavement maintenance work in each zone. Roads with the highest traffic volume are considered priorities. The process requires that the completed plans, including an estimate of the materials and time required, be entered into the computer system. The process also provides for monitoring of actual work completed compared to the plans. We were advised that the County Superintendents review the plans, however, there is no formal approval of the plans.

4.15 The priority patching plan for one crew in Queens County could not be located and for another it was only partially complete. In addition, we noted that the priority patching plans for Queens County were not entered into the computer system as required and the data was not maintained on an ongoing basis. In Prince and Kings County the process was followed as intended and information was provided to the County Superintendents on a regular basis.

Recommendations

4.16 The priority patching plans should be formally approved by the County Superintendents.

4.17 The priority patching plans should be entered into the management information system to assist in monitoring the work of the patching crews.

Pavement Maintenance Activity

4.18 We expected the pavement maintenance activities to be carried out in accordance with the priority patching plans. In addition we looked for appropriate controls to be in place over materials, labour and equipment used in patching. We reviewed a sample of the daily activity cards for each crew for each county. We found two cases where the road segment which was worked on did not appear on the plan. In another case the road segment was listed on the plan but was not scheduled to be patched that year.

4.19 We examined the crew productivity reports to determine the number of days each crew applied asphalt. We found significant variations in the amount of asphalt applied by each crew per day. The average tonnage of asphalt applied per day ranged from 15.2 tonnes for one crew to 5.6 tonnes for another. The Division standard indicates the amount of asphalt to be used on an average day is 12 to 15 tonnes. Only two crews met this target. The average tonnes per day for all zone crews was 8.5.

4.20 We were advised by senior management that in the past the productivity of the crews was assessed based on the number of tonnes of asphalt applied. Management indicated this promoted excessive usage of asphalt. Since that time a conscious decision has been made to focus on the quality of the work rather than the amount of asphalt applied. We acknowledge that the tonnes applied per day is not the only measure of crew performance, however, it can be a valuable indicator of productivity which should be followed up and explained.

Recommendations

4.21 The County Superintendents should monitor the information provided on the priority patching plans and obtain explanations for any deviations from the plan.

4.22 When assessing the performance of zone crews, the Division should review both productivity and quality. Where targets are not being achieved the reasons should be determined and corrective action taken.

Planning for Recapping

4.23 The Division capital budget includes approximately $1 million per county for recapping each year. The practice has been to provide approximately the same amount of funding to each electoral district.

4.24 In the spring, requests are received by the Department from Members of the Legislative Assembly, municipalities, and community groups regarding the recapping of roads within their district. These are recorded and compared to the recapping which the Zone Supervisor has recommended and a priority list is established.

4.25 We were advised that the practice of allocating funds to each electoral district as discussed above has not been a problem. All recapping that was done was needed. However, it is reasonable to assume that the condition of roads will vary between districts given the fact that the number of kilometers per district varies, roads have different traffic volumes, and roads were constructed at different times using different methods. Roads ranked as priority within a district may receive a different priority if the roads were ranked by county. We noted that one district with 302 kilometers of paved road received 4.5 kilometers of recapping in 2002-03 while another district with 96 kilometers of paved road received 5.8 kilometers of recapping.

Recommendation

4.26 The recapping of paved roads should be prioritized by County rather than the current practice of allocating approximately the same resources among the electoral districts.

Recapping

4.27 The Division owns two spreaders which are used to resurface roads. One spreader works in Prince County and the other serves both Queens and Kings Counties. In 2002-03, 65 kilometers of recapping was contracted with the private sector compared to 6 kilometers in 2001-02.

4.28 All of the recapping in Prince County, 15 kilometers in Kings and 11 in Queens were contracted in 2002-03. These contracts totalling $2.9 million were not tendered but were awarded at a negotiated price. We noted that these contracts were not approved by Treasury Board in accordance with the signing authority policy which requires Treasury Board approval of contracts exceeding $100,000.

4.29 The Division did not conduct a detailed cost analysis prior to contracting out the recapping. Subsequent to our inquiries, the Division prepared a cost analysis which compared the cost of recapping contracts in 2002-03 to the Division's cost of operating a spreader in the previous year. Based on the productivity levels used in the analysis it was less costly to contract recapping. However, if the Division achieved similar productivity levels as the contractor, the Division could have done the recapping at a lower cost.

Recommendations

4.30 Prior to contracting recapping work, a cost analysis should be prepared demonstrating the benefit to government.

4.31 As required by Treasury Board Policy on signing authority, contracts over $100,000 should be approved by Treasury Board.

Unpaved Roads and Roadside Maintenance

4.32 In addition to pavement maintenance and recapping the Division carries out other activities designed to maintain and enhance provincial roads. These activities are primarily carried out by the utility crews in each zone. The Division spends approximately $12 million per year on these activities. Roadside maintenance activities include; culvert installation, culvert repair, ditching, guardrail repair, shoulder repair, and sweeping.

4.33 The Zone Supervisor is responsible for planning the maintenance activity in the zone in consultation with the County Superintendent. We were advised that there are no documented plans for roadside maintenance. An informal system of planning increases the risk that resources may not be allocated to projects for which there is the greatest need.

4.34 The Division spent approximately $12 million in providing unpaved road and roadside maintenance activities. This included 4,900 person weeks of labour. The magnitude of Division resources supports the need for documented identification of maintenance needs and prioritization of the work by County.

Recommendation

4.35 The Division should prepare and implement a plan for roadside maintenance which identifies the maintenance activities required by zone, provides a work schedule to address these requirements, and allocates resources based on the plan and work schedule.

Labour Resources - Summer Maintenance

4.36 As part of our examination we reviewed the amount of labour used by the Division to determine if it was reasonable for the maintenance activities carried out. We compared the person weeks of labour used for summer maintenance 12 years ago, when we conducted our last audit, to the person weeks used in 2002-03 and found a significant increase. The hours of maintenance per kilometer have increased from approximately 46 to 71. This represents additional expenditures of approximately $1.5 million.

4.37 This trend of increased labour hours was not supported by a documented plan indicating a significant change in summer maintenance activities.

Recommendation

4.38 The Division should determine the labour required to carry out summer maintenance activities as established in a Divisional plan. Management should prepare a summary showing variances from the plan and provide explanations for any differences.

Winter Maintenance

4.39 The Highway Maintenance Division is responsible for winter maintenance on the Province's highways. The major activities are snow clearing and ice control which are dependent on weather conditions. Winter maintenance activities cost approximately $17.2 million in 2001-02.

Snow Clearing

4.40 The Division clears approximately 2,150 kilometers of road of which 540 kilometers are primary, including Routes 1, 2 and 3. The remaining roads, totalling approximately 2,350 kilometers, are cleared by 26 contractors.

Division Operations

4.41 The Division provides snow clearing services on primary highways, secondary roads and urban streets. For comparative purposes we have separated these services by type of road due to the different equipment requirements and costs. Based on Division costs for operators and equipment maintenance, plus depreciation of capital cost, the estimated costs are summarized in **Exhibit 4.2**.

EXHIBIT 4.2
ESTIMATED COSTS OF DIVISION SNOW CLEARING OPERATIONS
2001-02

	Queens County	Prince County	Kings County	Total
Primary Highways				
Kilometers	225	205	114	544
Cost per km	$4,600	$2,700	$3,100	$3,600
Secondary Roads				
Kilometers	369	273	806	1,448
Cost per km	$2,200	$2,200	$1,300	$1,700
Urban Streets				
Kilometers	162	-	-	162
Cost per km	$3,000	$ -	$ -	$3,000

4.42 Primary highways have the highest cost of winter maintenance. The major factors which contribute to this cost are; the primary highways are wider and have additional passing lanes, plows are equipped for salting and sanding, and a higher level of service is required for these highways.

4.43 The costs for snow clearing on secondary roads in Queens and Prince Counties are comparable at approximately $2,200 per kilometer. Kings County has lower costs per kilometer. Differences in the cost of snow clearing per kilometer can be expected from one county to another. Our cost analysis, however, showed a significant variation for the cost of Divisional snow clearing on secondary roads in Kings County as compared to the other two counties. This is due in part to the longer routes covered per plow. Any analysis of the difference should consider all factors including economy and efficiency, as well as the level of service of the snow clearing operations.

Recommendation

4.44 The Division should determine the reasons for the lower cost of snow clearing secondary roads in Kings County and take action to address any opportunities to reduce costs in other counties.

4.45 Tandem and 4x4 truck plows operate with a wingman from mid-December to late March. We were informed that private contractors operate without wingmen for the entire season. The Division's graders and loaders use a single operator. According to Division management, the wingman's role was once standard due to insurance requirements and industry practice. The insurance requirement is no longer a factor and other provinces no longer use a wingman on a regular basis.

4.46 There are approximately 48 wingmen on government plows and the total cost of these positions is approximately $370,000.

Recommendation

4.47 The Division should re-examine the benefit and cost of using wingmen on truck plows.

4.48 Private contractors provide snow clearing on secondary roads. In 2001-02 contract costs totalled approximately $4.8 million or $2,039 per kilometer. The overall comparison between contractor costs and Division costs for clearing secondary roads shows Division costs to be approximately 8 percent higher in Queens and Prince County, while Kings County is significantly lower.

4.49 Snow plowing services by private contractors are exempt from the Public Purchasing Act and from the contract services policy in the Treasury Board Policy and Procedures Manual; however, the policy also states that in the case of snow plowing services, the "rate package" negotiated with the Road Builders Association must be approved by Treasury Board. The contract rates are established each time a rate package is negotiated with the Road Builders Association. The Department could not provide the Treasury Board approval for the current snow clearing rate package.

Recommendation

4.50 The Division should ensure that Treasury Board approval is obtained for the rate package negotiated with the Road Builders Association for snow clearing contracts.

4.51 The equipment requirements for contractors are clearly defined in the contract. Equipment is required to be on standby starting November 1 and operational by November 15. A standard equipment inspection checklist is completed by Division staff for each piece of equipment. Deficiencies are noted and subsequently followed up when staff are in the contractor's area.

4.52 We reviewed the processes for monitoring contractor compliance with equipment requirements on a sample basis and noted the following: not all equipment was confirmed as operational when required by the contract; equipment checklists for some required equipment were not available; where equipment problems were noted, we could not locate a formal record confirming that repairs had been made; and equipment checklists were not consistently signed by both the Department inspector and the contractor's representative.

Recommendation

4.53 The Division should ensure that equipment requirements outlined in contracts are adhered to and any deficiencies in contractor equipment are corrected.

Ice Control

4.54 Sand and salt are used primarily for ice control on provincial highways. In general, salt is spread on approximately 500 kilometers of primary highways and sand is spread on the remaining 4,000 kilometers of road. This practice is aimed at achieving a balance between safe road conditions, environmental considerations and cost.

Salting

4.55 Salt is used on the primary highways of the Province which include the Trans Canada as well as Routes 2, and 3. These roads are maintained by the Division with vehicles that are usually combination plows and salt trucks. In 2001-02, the 24 combination plows spread over 15,000 tonnes of salt at a rate of almost 500 kilograms per kilometer per day. According to the Storm Response Guide, the standard application ranges from 130 kilograms per kilometer per application for wet snow on pavement above freezing, to 200 kilograms per kilometer per application for wet snow on colder pavement. The actual application rate would mean that on average at least 2.5 applications were made per day. This rate appears to be high, in relation to the standard developed by the Division, and should be reviewed.

Recommendation

4.56 The Division should follow up on the high application rate for salt, and take corrective action if necessary.

Sanding

4.57 Almost all sanding in the Province is done under small sanding contracts. There are 60 operators using trucks with sand boxes provided by the Division. Sanding routes total almost 3,600 kilometers which is an average of 60 kilometers per operator.

4.58 We reviewed the sand usage for each operator in 2001-02 based on Division inventory records. The average spreading rate was 23.4 tonnes per route kilometer for the season. Of the 60 operators, 10 reported usage at less than 75 percent of the county average and 12 reported usage of more than 125 percent of the county average. We were unable to obtain documentation confirming that such large deviations were identified and followed up.

4.59 An issue with respect to sand trucks is whether they are the most cost effective solution to winter maintenance. The cost of sanding averages $300 per kilometer of road. It may be feasible to save some of this cost by converting contractor plows to combined plows similar to those used on primary highways. The advantages could include reduced costs to the Division, and flexibility in snow clearing and ice control with a single vehicle.

Recommendations

4.60 Highway Maintenance Division should monitor annual sand usage of contractors and ensure significant deviations from normal use are explained.

4.61 Highway Maintenance Division should examine the feasibility of converting snow clearing and sanding contracts into combination contracts on suitable routes.

Division Equipment

4.62 The Highway Maintenance Division uses heavy equipment such as graders, loaders, blowers, trucks, tractors/bush cutters, asphalt spreaders and rollers. In addition they use various light duty vehicles to transport employees, smaller pieces of equipment, and materials. The total value of equipment owned by the Department is estimated at $26 million. Heavy equipment accounts for approximately $23 million of this total.

Equipment Replacement

4.63 The Division has an equipment replacement policy requiring five year forecasts of requirements. The policy uses fleet age indicators to identify sections of the fleet requiring replacement. The status of the equipment by major type is included as **Exhibit 4.3**.

EXHIBIT 4.3
FLEET AVERAGE AGE AS OF OCTOBER 2002

	Number of Units	Expected Useful Life	Number Over Useful Life	Estimated* Cost ($000)	Total ($000)
Blowers	17	25	6	$230	$1,380
Loaders	17	20	5	240	1,200
Graders	29	20	10	240	2,400
4x4 truck plows	21	20	4	130	520
Tandems	26	10	10	110	1,100
Single axles	18	10	6	75	450
Tractors/grass cutters	17	20	3	65	195
Pick-ups	48	6	12	25	300
Crew Cabs	27	6	3	32	96
					$7,641

*Estimated cost per unit is based on expected replacement cost.

4.64 **Exhibit 4.3** indicates that several types of equipment have a significant number of pieces over their optimum age which require replacement. For example, 10 graders of 29 in total are more than 20 years old. The large number of older fleet equipment in service would result in higher maintenance costs and less reliable equipment. The cost to replace equipment which is beyond its expected useful life is estimated at $7.6 million. The Division's equipment purchases for the 4.5 years from April 1998 to October 2002 totalled $4.6 million.

4.65 We expected the Division to have a plan supporting purchase decisions which was related to the equipment replacement policy. The Division could not provide a current plan.

Recommendation

4.66 The Division should update the plan for replacement of equipment. Forecast needs and an evaluation of what equipment is most suitable to meet those needs should be considered.

Light Trucks

4.67 A significant investment has been made in crew cabs and pick-up trucks since 1998-99. Fifty vehicles were purchased at a total cost of $1.5 million. This included capital purchases of $1.2 million and three year lease payments of $.3 million. As previously noted, the Division could not provide a current equipment replacement plan and we found no other supporting documentation for spending such a significant amount of the equipment budget on light vehicles.

4.68 In addition to its own fleet of half-ton trucks, the Division rents half-ton trucks from employees which are used to transport equipment, materials and workers. The employees are paid an hourly rate of $8.40 for a maximum of five hours per day with an additional $1.50 per hour if a tack trailer is towed. For the year ended March 31, 2002 approximately $225,000 was paid to 70 employees for these rentals. Half-ton truck rentals from employees are not in compliance with Treasury Board's Travel policy which limits payments to employees for business travel on a per kilometer basis. In 1993 the Department obtained an exception from the policy but was required to provide its internal policy to Treasury Board for review and approval. This requirement was not met.

Recommendations

4.69 The Division should conduct a detailed analysis of the need for light vehicles including crew, materials and equipment transport.

4.70 The Division's policy for half-ton rentals from employees should be submitted to Treasury Board for review and approval.

Lease/Purchase Arrangements

4.71 The Division acquired four tractors and grass cutting attachments through two leasing agreements. Buyout options totalling $142,300 on the two leases were paid in 2001-02 from the capital equipment account.

4.72 One of these leasing arrangements covered three tractors which had a purchase cost of $124,900 in 1997. The lease included eight payments totalling $106,800 and a buyout of $91,100 for a total of $197,900. The financing cost for this transaction was $73,000 over the four year period or a rate equivalent to 18.75 percent.

4.73 In a separate acquisition of a bush cutting tractor, rental payments, lease payments, and the buyout had a total cost of $163,200. This equipment was valued at $154,100 in 1999 when it was first leased.

4.74 During 2001-02 the Division acquired a used loader costing $55,900. The loader was acquired in what appears to be a lease to purchase arrangement with a combination of lease and rental payments. There was no formal documented approval to support this arrangement.

4.75 These acquisitions were made without Treasury Board approval and do not comply with the Public Purchasing Act, which requires that purchases with a value exceeding $25,000 be advertised publically.

Recommendations

4.76 Leasing arrangements which result in an uneconomic use of Division resources should be avoided.

4.77 Equipment should be purchased in accordance with the requirements of the Public Purchasing Act.

4.78 All lease purchase arrangements should be documented and formally approved in an agreement.

Fleet Management System

4.79 A fleet management system was introduced in January 2000 called FleetAnywhere. It enables monitoring of costs and provides accounting data for entry to the Province's financial information system. Direct costs, including parts and labour, are accumulated by work orders and assigned to equipment by identification number. In addition, fuel costs are assigned to vehicles. The system is used by the Division's three garages to track equipment, fuel, parts and direct labour costs.

4.80 We expected management to use the system's monitoring and reporting capabilities to manage the fleet including usage analysis and costing. The costs for each piece of equipment are accumulated but not reported in summary or used by management. In our opinion the repair and maintenance costs, in particular for older equipment, would be useful to indicate whether replacement of the equipment should be considered. The system can also provide information to monitor equipment usage, however, we found that utilization of this data was minimal.

Recommendation

4.81 To assist in monitoring costs of the equipment fleet, the Division should utilize the costing reports which can be produced by the FleetAnywhere system.

Preventive Maintenance

4.82 A Preventive Maintenance Program has been implemented for all equipment. Division management indicated a regular preventive program results in lower costs and less down time due to unscheduled repairs. Mechanical Branch staff do preventive maintenance tasks on vehicles and heavy equipment based on the kilometers driven. Weekly reports from the FleetAnywhere system indicate when a service is due or overdue.

4.83 We reviewed the preventive maintenance services provided for a sample of vehicles. In our sample we found:

- The Western region did not comply with the Preventive Maintenance policy. There was inaccurate recording of mileage, poor documentation of maintenance work, and fewer services carried out than what was required; and
- In the Eastern region, fewer maintenance services were carried out than what was required, and checklists were not always completed or properly filed.

4.84 In the Eastern and Western regions checklist files were maintained separately from the vehicle files. They provide a record of service done and should be attached to work orders. We also noted that mechanics do not always sign the work orders or preventive maintenance checklists to indicate the work has been completed.

Recommendations

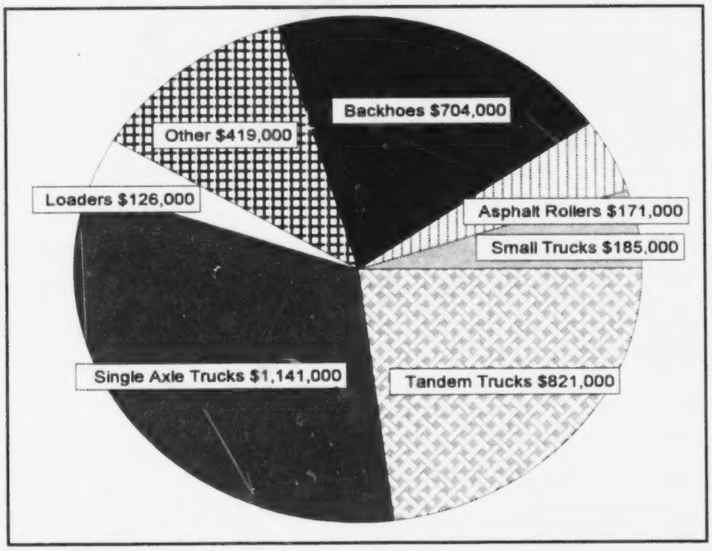
4.85 The Auto Shop Supervisors should monitor preventive maintenance services being provided to ensure compliance with the Division's policy on preventive maintenance.

4.86 Work orders and preventive maintenance checklists should be signed by mechanics and included with vehicle files.

Equipment Rentals

4.87 In 2001-02 the Highway Maintenance Division rented equipment at a cost of $3.6 million. As indicated in **Exhibit 4.4** over half of the expenditures were for single axle and tandem dump trucks.

EXHIBIT 4.4
SUMMARY OF EQUIPMENT RENTALS
2001-02



4.88 The Division has not performed an analysis to determine whether the benefit of renting equipment exceeds the cost of owning the equipment, especially for frequently used vehicles such as dump trucks, backhoes and rollers. These vehicles cost in excess of $2.8 million to rent in 2001-02.

4.89 The Department rents more than 100 single axle dump trucks at a cost of $1.1 million. Most of the trucks service the pavement maintenance and utility crews during the summer months.

4.90 We found that the current system of renting dump trucks and assigning them to crews is not efficient. The trucks can spend much of the day waiting to haul asphalt to the crews or the trucks may not be fully utilized if the crews are not patching that day. A dispatch system should be considered for providing dump trucks to crews.

4.91 The Division continues to rent single axle trucks for hauling tack to some of the pavement maintenance crews. During the year, 15 tack trucks were rented at a total cost of approximately $220,000. These trucks can be replaced with tack trailers for a one time cost of about $5,000 each, for a total cost of $75,000. According to Division staff tack trailers can provide better service when a tack trailer is provided for each of the zone crews.

4.92 Backhoes are rented for the utility crews during the summer. The cost of renting backhoes in 2001-02 was in excess of $700,000. Backhoes were rented from approximately 70 vendors in 2001-02 with fifty percent of the expenditures related to 12 vendors.

4.93 Asphalt rollers are rented for each patching crew for the summer period. Total roller rental costs in 2001-02 were $171,000. Most of the rollers were rented from 7 vendors.

Recommendations

4.94 The Division should compare the cost of renting each type of equipment with the cost of owning equipment to determine whether renting or owning is more economical.

4.95 The Division should consider using a dispatch system for utilizing dump trucks during the summer.

Travel

4.96 In 2001-02 the Division paid $513,000 for travel and training costs including; $345,000 to reimburse employees for using personal vehicles while travelling on government business, $153,000 for government owned or leased vehicles, and $15,000 for out-of-province travel or training costs.

4.97 Fleet requirements are to be assessed on an annual basis and incorporated into the budget process. A summary of vehicles by type showing proposed changes is required to be submitted to Treasury Board annually. We compared the plan as at March 31, 2002 to vehicle data within the Highway Maintenance Division. The plan submitted to Treasury Board includes approximately 40 vehicles used by the Division, however, 75 vehicles are actually used. The difference is due to the exclusion of light duty vehicles such as crew cabs and some half-ton trucks.

4.98 Where vehicles are assigned, Treasury Board Policy requires employees to sign Vehicle Acknowledgement Forms outlining their responsibilities, and submit monthly logs indicating personal kilometers. We selected a sample of assigned vehicles and reviewed the documentation for compliance with Treasury Board Policy. We found that over 50 percent of the files did not contain a current Vehicle Acknowledgement Form and many had no monthly logs.

4.99 Employees are reimbursed for travel when using their own vehicle, based on a rate per kilometre as established by Treasury Board Policy. Employees are encouraged to use their own vehicle when annual business travel does not exceed 30,000 kilometres and when it exceeds 35,000 kilometres departments must provide a vehicle, unless other arrangements are specifically approved by Treasury Board. We noted two employees have made sufficient claims to warrant the provision of a government vehicle. One employee travelled 37,800 kilometers and the other 42,400 kilometers in 2001-02.

Recommendation

4.100 The Division should comply with Treasury Board's Travel Policy.

MANAGEMENT RESPONSE

4.101 We discussed our report with Management and they indicated they will address the issues raised.

5. INFRASTRUCTURE PROGRAM

BACKGROUND

5.1 The Canada-Prince Edward Island Infrastructure Program Agreement was signed in October 2000 between the Government of Canada and the Government of Prince Edward Island. As a result of this agreement, more than $38 million will be invested in infrastructure over the five years ending in 2005-06. The Federal and Provincial governments will each provide $12.8 million and the investments from applicants will be a minimum of $12.8 million. The Federal and Provincial contributions include $200,000 each for administration of the Program.

OBJECTIVES AND SCOPE

5.2 In accordance with Section 13 of the Audit Act, we assessed management practices and controls over the Infrastructure Program.

5.3 Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we consider necessary in the circumstances. Our audit included a sample of approved projects as well as applications on file. We examined investment targets, project selection, project changes, claims processing, and monitoring procedures.

DETAILED AUDIT OBSERVATIONS

Roles and Responsibilities

5.4 The Management Committee is responsible for the administration and management of the Program Agreement. Members of the Committee consist of two Federal representatives, two Provincial representatives and two local government representatives as observers. The Program Agreement defines the Management Committee's responsibilities including:

- administration of guidelines for application, assessment, approval, reporting, implementation and evaluation;
- establishment of a Joint Secretariat to support administration and sharing of information;
- consideration of project changes including cost overruns;
- implementation of the communications protocol and audit framework; and
- provision of annual audit plans and reports to Ministers.

5.5 To assist the Management Committee, a Project Selection Sub-Committee was established comprised of federal, provincial and municipal representatives. They performed a basic assessment and rating before forwarding projects to the Management Committee.

5.6 The Province processes claims from applicants and pays the Federal and Provincial share of funding based on the percentage of approved project costs. The Province then makes a claim for the federal share of approved costs.

5.7 The Program Agreement requires the implementation of an audit framework outlining provisions for annual auditing of the expenditures incurred. Its purpose is to provide independent and objective assurances that: the management framework ensures compliance with the Program Agreement; funds are spent for the purpose intended and with due regard for economy, efficiency and effectiveness; applicants comply with environmental obligations; and systems are in place for the collection of information on the results of the program.

5.8 We were advised by the Program Secretariat that no audit plans were approved by the Management Committee to the date of our audit.

Recommendation

5.9 The Management Committee should approve annual audit plans as outlined in the Program Agreement.

Investment Targets

5.10 The Program Agreement indicates green municipal infrastructure is the first priority. In this Province, at least 60 percent of approved project costs are to be directed toward green municipal projects such as water and wastewater systems. Secondary priorities include projects such as, cultural and recreational facilities, tourism initiatives, and affordable housing.

5.11 In addition, a minimum of 46 percent of the total approved project costs are to be in rural communities. Rural is defined as all areas outside Charlottetown, Summerside, Cornwall, and Stratford.

5.12 The investment targets in the Plan Agreement are based on a percentage of total approved projects. A summary of the approvals to March 31, 2002 and the remaining balance of program funding is presented in **Exhibit 5.1**.

EXHIBIT 5.1
PROGRAM FUNDING
(MILLIONS)

	Federal	Provincial	Applicant	Total
Approved projects to March 31/02	$ 9.3	$ 9.3	$20.0	$38.6
Remaining to be allocated	3.3	3.3	3.3	9.9
Total	$12.6	$12.6	$23.3	$48.5

5.13 **Exhibit 5.2** shows the distribution of project approvals to March 31, 2002 for both Urban/Rural and Green/Non-Green. The exhibit indicates that the project approvals to March 31, 2002 do not meet the required targets of 60 percent green and 46 percent rural. To ensure the investment targets are met, $6.9 million of the $9.9 million remaining must be used for rural projects, and $9 million of this amount must be allocated to green projects.

EXHIBIT 5.2
INVESTMENT TARGETS
(MILLIONS)

	Total	Urban	%	Rural	%	Green	%	Non-Green	%
Distribution to March 31/02	$38.6	$23.2	60	$15.4	40	$20.1	52	$18.5	48
Remaining to be allocated	9.9	3.0	30	6.9	70	9.0	91	.9	9
Required distribution	$48.5	$26.2	54	$22.3	46	$29.1	60	$19.4	40

5.14 In summary, there is limited flexibility for the remaining project approvals if the minimum investment targets in the Program Agreement are to be met.

5.15 At the time of our audit, we were advised by the Program Manager that the method of calculating investment targets was being reviewed by federal officials. Similar concerns to those expressed in this Province were being raised in other provinces. The primary concern was that the targets were related to total project costs. If the targets were based on the amount on which federal/provincial funding was calculated, as of March 2002 green projects and rural projects would be 64 percent and 48 percent respectively, exceeding the minimum targets.

Recommendation

5.16 The Management Committee should obtain clarification on the method for calculating investment targets.

Project Approvals

5.17 The Province set a December 1, 2000 deadline for applications to be considered during Round 1 of the approval process. In May 2001 a public announcement was made of approved projects.

5.18 The events leading to the approval of projects were as follows:

- A total of 145 applications involving over $200 million in costs were received by December 2000;
- The Management Committee discussed the points based ranking system recommended in the Federal Guidelines and decided to modify it to allow a more balanced approach;
- The Project Selection Sub-Committee reviewed the applications, performed assessments and prepared project lists;
- A list of federally supported projects was presented to the Management Committee;
- Provincial officials prepared a list of provincially supported projects;
- Executive Council direction was sought and project lists and groupings were presented by county and a small projects list was also presented;
- Executive Council received updated municipality priority information and suggested the inclusion of certain projects although a final list was not formally approved;
- The Management Committee recommended approval of 53 projects at their April 5, 2001 meeting;
- In May 2001 a total of 56 projects were publically announced as approved; and
- One project was approved in September 2001, on an emergency basis, to replace a rink where the roof collapsed.

5.19 Reasons for the Management Committee recommending certain projects were not always clearly indicated. Informal discussions were held regarding which projects on each federal or provincial list were to be approved. For example, at one point 32 projects were on the list as supported by both the federal and provincial representatives. At the meeting on April 5, 2001 the Management Committee added 21 projects for a total of 53 recommended projects. The reasons for selecting these projects was not documented.

Recommendation

5.20 The Management Committee should ensure that the rationale for approving projects is documented.

Project Applications

5.21 We expected the projects approved to be supported by complete applications including detailed descriptions to demonstrate eligibility and documented support from the communities involved. We noted a few projects that did not have sufficient information included with the application. The information which was not provided included: documentation indicating the support of the community or indicating priority for the project by the community; detailed description of costs; and supporting documentation outlining the benefit of expanding facilities. In addition, we found an example where the project application did not provide sufficient information to demonstrate that program eligibility criteria were met.

Seniors Housing Cooperative

5.22 This project was approved for $1,359,800 in project costs based on the initial application which did not include sufficient information. The applicant subsequently provided a business plan including a capital cost summary and cash flow information. This additional information should have been provided before the application was approved.

5.23 The Management Committee delayed signing the Funding Agreement until August 2001 in order to obtain clarification that affordable housing rules would be met and to confirm that the new facility would not be providing nursing home services.

5.24 The Infrastructure Program uses Canada Mortgage and Housing Corporation's definition of affordable housing. Affordable housing is considered modest in terms of floor area and amenities, is based on household needs and community norms, and is priced at or below average market housing rents for comparable housing in a community. For simplicity it is considered that shelter costs must consume less than 30 percent of before tax household income. Shelter costs include payments for rent, electricity, fuel and municipal services.

5.25 There was insufficient analysis on file to demonstrate that the project would meet the affordable housing rules. The income levels of residents and the percentage paid toward shelter costs are key components in determining compliance with affordable housing rules.

5.26 The provision of certain health care services would make this project ineligible. For example, the provision of 24 hour nursing care required by low functioning clients would make the project ineligible. Documentation provided by the applicant indicated that long term nursing care could be one category of service.

5.27 A significant amount of correspondence regarding the issues of affordable housing and nursing care was evident from our review of the file. The Management Committee accepted the applicant's contention that they met the program criteria and the project was approved.

Recommendation

5.28 All approved projects should be supported with complete applications including adequate supporting documentation.

Funding Agreements

5.29 A standard Funding Agreement was developed with legal and other input from both provincial and federal sources. The Agreement lists several items the applicant is to provide, after approval but prior to beginning construction. These include: a list of funding sources; a detailed project description including plans, tenders, quotes, and permits; and an updated milestones list. There was limited documentation to demonstrate follow-up with applicants who did not provide the required documentation. Seven projects with $2.1 million of approved costs did not provide any updated documentation although they had claims approved totalling $843,000.

5.30 The Funding Agreement also requires the applicant to provide other documentation such as evidence of general liability insurance. Few applicants provided evidence of their insurance coverage and there was no follow-up to obtain it. The Management Committee considered a waiver for liability insurance for small projects, however, no changes were made to the Funding Agreement to reflect this.

Recommendation

5.31 The Program Manager should follow up with applicants to obtain the required documentation as outlined in their Funding Agreement.

5.32 The documentation that applicants are required to provide enables project monitoring and early identification of project cost issues. We found that costing documentation was not fully utilized to monitor projects.

5.33 A project to upgrade campground facilities included the installation of a well, pump and tanks in addition to other costs. A claim was made for the total approved costs, however, the well, pump and tanks were not included. A second project by a different applicant located in the same area included a claim for the same well, pump and tanks in the amount of $11,400. Had this item been claimed under the project for which it was approved, it would not have been paid unless a project change was approved. More careful monitoring is required to compare the items approved against those claimed.

5.34 A water/wastewater extension was approved for $463,000. Two claims totalling $48,400 were approved. However, no documentation was provided prior to construction as required by the Funding Agreement to indicate funds source, permits, tender results or quoted costs. Claim documentation did not provide sufficient details to indicate the total contract amounts awarded or whether the contract amounts were within the estimates provided with the application.

5.35 A project for seniors housing units was approved at $1,359,800. The construction tender was subsequently awarded at approximately $300,000 over the construction estimate. The applicant did not provide information to indicate the source of funds to cover the additional costs or alternative cost reductions.

Recommendation

5.36 Adequate cost data should be obtained from applicants and used as a basis for processing claims and monitoring projects.

MANAGEMENT RESPONSE

5.37 We discussed our report with management and they indicated the issues raised will be addressed.

6. VERIFICATION OF THE PRINCE EDWARD ISLAND REPORT ON COMMON HEALTH INDICATORS

BACKGROUND

6.1 In September 2000, the First Ministers agreed to provide comprehensive and regular public reporting on health programs and services, and to collaborate on the development of a comprehensive framework using jointly agreed upon comparable indicators. Each government was to begin reporting by September 2002, and have its report verified by a third party.

6.2 The Performance Indicators Reporting Committee (PIRC) was established as a sub-committee of the Conference of Deputy Ministers of Health. The Committee defined a comprehensive framework of 67 health indicator measures in 14 broad areas which were approved by the Conference of Deputy Ministers. This became the *Plan for Federal/Provincial/Territorial Reporting on 14 Indicator Areas*.

6.3 The 14 indicator areas are organized and reported under the following categories; health status, health outcomes, and quality of service. Many of the indicator measures originate from national databases at Statistics Canada, the Canadian Institute for Health Information and Health Canada.

6.4 In September 2002, the Department of Health and Social Services issued the Prince Edward Island Report on Common Health Indicators.

OBJECTIVES AND SCOPE

6.5 The PEI Department of Health and Social Services requested that our office verify the Prince Edward Island Report on Common Health Indicators. Our work did not constitute an audit and was limited to applying specified auditing procedures.

6.6 We performed the following specified audit procedures on the Report:

- Verified that reported information obtained from external sources, such as Statistics Canada, the Canadian Institute for Health Information and Health Canada, agreed with the stated sources.

- Verified that reported information originating within the Department of Health and Social Services agreed with the reports from the systems used to develop the information.

- Tested the calculations that converted source report information into reported indicator results.

- Verified that the health indicators were reported in accordance with the requirements contained in the Performance Indicators Reporting Committee's *Plan for Federal/Provincial/Territorial Reporting on 14 Indicator Areas* as approved by the Conference of Deputy Ministers of Health.

DETAILED OBSERVATIONS

6.7 The full text of the Report of the Auditor General on the Results of Applying Specified Auditing Procedures is included within the Prince Edward Island Report on Common Health Indicators - September 2002. Our report indicates that we found no significant exceptions.

6.8 During our work, issues we noted were brought to the attention of the Department. The Department reported on all 14 indicator areas for 58 of the 67 measures. Six could not be reported on because data was not available from the national databases at the time of the report. The remaining three: wait times for cardiac surgery; wait times for hip and knee replacement; and wait times for radiation therapy; were not reported because provincial data was not available or readily accessible. This was disclosed in the Report.

6.9 We reviewed a number of drafts of the Report and identified a number of problems. These included deviations from Plan requirements, data errors, and issues related to presentation. The Department addressed our concerns and made appropriate changes to the Report.

6.10 We recognize that this was a new initiative for the Department and we expected that a number of changes would be necessary. Ideally, however, the Department should have had quality control procedures in place to ensure that the majority of these errors and inconsistencies were corrected before the Report was submitted to our office for verification.

6.11 The indicator areas and measures defined were considered important areas for reporting by each jurisdiction. We understand that the current intention is for these reports to be produced biannually by all jurisdictions with the next report expected in late 2004.

6.12 The Prince Edward Island Report on Common Health Indicators - September 2002 was the result of a cooperative effort among federal, provincial and territorial governments to report comparable indicators to the public related to health care. It was a new initiative for all jurisdictions. Preparation of the Report involved substantial time and effort by department staff and we were pleased with the quality of the Report issued by the Department.

Recommendation

6.13 The Department should ensure that data is collected on all the measures required to be reported by PEI in comparable health indicator reports.

MANAGEMENT RESPONSE

6.14 The Department indicated they intend to take action on the issues raised.

7. INVENTORY

BACKGROUND

7.1 Government departments maintain various types of inventories to support their programs and operations. These range from bridge materials and equipment parts, to forestry seedlings and textbooks. Effective in 1993-94, government discontinued recording inventories of supplies in the Public Accounts to conform with a recommendation of the Public Sector Accounting Board.

7.2 Inventories of supplies are expensed for the purposes of the Public Accounts but are maintained as inventories for control purposes. The inventories maintained by government departments are listed in **Exhibit 7.1**. Inventories totalled approximately $4.4 million at March 31, 2002. The only inventory in **Exhibit 7.1** that is recorded as an asset in the Public Accounts is the Properties Purchased for Resale.

EXHIBIT 7.1
INVENTORY-GOVERNMENT DEPARTMENTS

Description	Purchases 2001-2002	Value March 31, 2002
Agriculture & Forestry		
Nursery Stock	$ 530,000	$ 400,000
Education		
Books and Materials	1,820,000	800,000
Transportation & Public Works		
Bridge Maintenance	510,000	750,000
Government Garage	2,800,000	990,000
Highway Marking	1,290,000	450,000
Road Maintenance (sand, salt, culverts & fill)	4,880,000	780,000
Public Works Stores	200,000	160,000
Properties Purchased for Resale	20,000	90,000
TOTAL	**$12,050,000**	**$4,420,000**

7.3 As a result of audits of inventory in 1987 and 1993 we recommended that Treasury Board establish a policy for the management and control of inventories. Treasury Board approved a policy in 1995.

OBJECTIVES AND SCOPE

7.4 In accordance with Section 13 of the Audit Act, we assessed the management and control of inventories held by government departments. Our objective was to determine if inventories were managed by departments in accordance with the Treasury Board Inventory Management Policy.

7.5 Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. As part of our examination, we reviewed inventory management procedures of departments and performed test counts on inventories.

DETAILED AUDIT OBSERVATIONS

Inventory Management Policy

7.6 The objective of the Treasury Board Inventory Management Policy is to encourage the efficient management of inventories, improve security of assets and ensure that accounting for inventories is carried out in a manner such that all requirements for adequate control and accurate, timely information are met. Under the Policy, inventory is defined as any stockpile of goods which have a material value.

7.7 The Policy requires departmental management to

- determine the appropriate levels of inventory to support departmental operations;
- minimize the cost associated with carrying the inventories;

- maintain and account for inventories in accordance with all applicable acts and regulations, as well as directives issued by Treasury Board or the Comptroller; and
- provide adequate physical control over inventories to protect against loss, theft, damage and misuse of inventories.

Compliance With Inventory Policy

7.8 We reviewed inventory practices in each of the departments that maintained inventory and expected to find inventories managed in accordance with Treasury Board Policy. This would include maintaining appropriate inventory levels, following appropriate accounting practices and providing adequate security. The observations which follow relate to the Department of Transportation and Public Works which maintains the majority of the inventory.

Inventory Levels

7.9 Inventory policy requires that appropriate quantities be maintained to support departmental requirements. The process should consider the costs of acquiring inventory and the costs of storing it over time.

7.10 We noted inventories in the Department of Transportation and Pubic Works where the inventory levels require review. These included bridge materials, garage parts and signs.

7.11 The bridge materials inventory was approximately $750,000 at March 31, 2002. Approximately $550,000 in materials was used during the year. The ending inventory was high relative to annual usage. Contributing to the high value of inventory was a large supply of guardrail components acquired for a replacement program that was subsequently cancelled.

7.12 The Department operates garages at Charlottetown, Summerside, and Bridgetown with inventories of approximately $500,000, $260,000, and $230,000, respectively at March 31, 2002. The major stock items are parts $890,000; tires $75,000; and fuel

$25,000. Year-end inventories of parts have decreased since our last review. While this is an improvement, current levels are equivalent to approximately six months usage.

7.13 Sign shop inventory is high relative to the number of signs used each year. At March 31, 2002, there were approximately 11,000 completed signs in stock, approximately double the number used in 2001-02. For the year-ended March 31, 2002, the sign shop used approximately $250,000 of supplies and ended the year with inventory of approximately $360,000. The level of inventory required to meet annual demand should be reviewed.

Recommendation

7.14 The Department of Transportation and Public Works should take steps to reduce inventory levels of bridge materials, government garage parts, and sign shop materials.

MANAGEMENT RESPONSE

7.15 Management of the Department of Transportation and Public Works indicated that steps will be taken to address the issues raised.

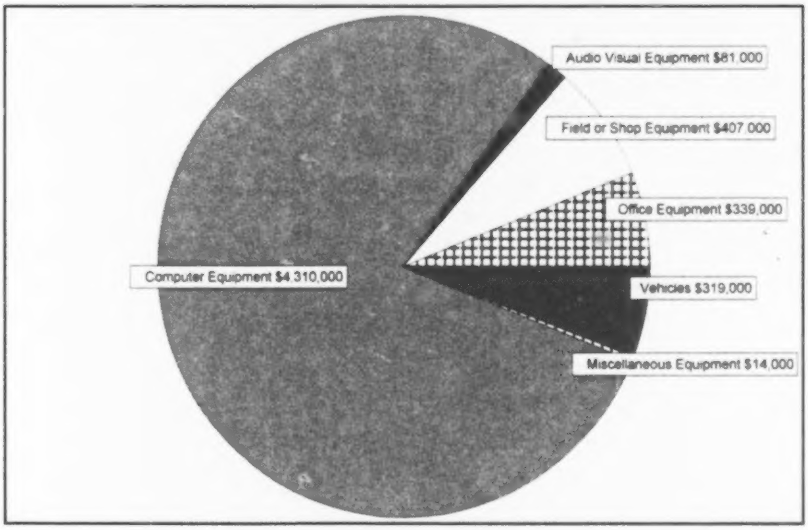
8. EQUIPMENT

BACKGROUND

8.1 Treasury Board Policy provides direction to government departments on the management and control of government equipment. Equipment includes furniture, office equipment, computers, printers, software, small motorized equipment, and lab, survey and test equipment.

8.2 During 2001-02 expenditures by departments on equipment were $5.5 million, including computer equipment leased under the Evergreen Program. A summary of equipment expenditures is presented in **Exhibit 8.1**.

EXHIBIT 8.1
GOVERNMENT EQUIPMENT
EXPENDITURES BY TYPE IN 2001-02



OBJECTIVES AND SCOPE

8.3 In accordance with Section 13 of the Audit Act, we examined equipment management in government departments. Our objective was to determine if departments were complying with the Treasury Board Policy on Equipment Inventory Management. Motor vehicles are covered by separate Treasury Board Policies and were outside the scope of our work.

8.4 Our examination was performed in accordance with the value for money auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. As part of our examination, we contacted departments to obtain information on their equipment inventory, policies and procedures. We also verified a sample of equipment inventories.

DETAILED AUDIT OBSERVATIONS

Policy

8.5 The Treasury Board Equipment Inventory Management Policy was approved in February 1996. It is intended to assist management to optimize the investment in equipment, maintain efficient and effective controls, and ensure economical purchasing. The following minimum procedures are identified:

- conduct a physical count, at least annually;
- include equipment greater than $250 until declared surplus, as well as equipment rented or leased on a continual basis;
- record detailed inventory descriptions;
- identify surplus, obsolete and damaged equipment;
- investigate discrepancies against prior inventory; and
- exclude equipment accounted for by another Department.

Equipment Inventories

8.6 In examining the equipment inventories across government, we expected to find complete and accurate records that were verified by an annual inventory count in accordance with Treasury Board Policy.

8.7 The Treasury Board Policy requires that a physical count of equipment inventory be conducted at least annually. The Policy indicates that as part of inventory procedures, the current inventory count should be compared to the inventory records so that discrepancies can be investigated and errors or losses identified. Most departments did not reconcile inventory listings to agree with an annual inventory count. We noted that some departments used their inventory count as the new inventory listing.

8.8 The Treasury Board Policy requires the inventory to include equipment greater than $250 until it is declared surplus, as well as equipment rented or leased on a continual basis.

8.9 We found that inventory records of recent computer equipment acquisitions leased under the Evergreen Program were available for all departments. Inventory records for computer equipment acquired outside the Evergreen Program were maintained by approximately half of the departments.

8.10 Records for furniture and equipment other than computer equipment were kept in a variety of formats. A few departments provided detailed inventory listings although most departments provided partial listings or none at all. Where equipment inventory records are kept, they ranged from completely manual to largely computerized.

Recommendations

8.11 As required by Treasury Board policy, departments should complete an annual inventory count of equipment.

8.12 When updating inventories, the inventory count should be compared against previous inventory records and purchases. Any discrepancies should be followed up and explained.

8.13 In accordance with Treasury Board policy, departments should maintain complete records of all furniture and equipment.

Security

8.14 Most equipment was kept in government buildings or off site in locked warehouses. File servers and related computer equipment are high value items which were found to be maintained in secure locations. Other equipment such as desktop computers have little security beyond the general security over removal of equipment from buildings.

8.15 We reviewed claims over a five year period for equipment related loss reported to the Risk Management Section of Provincial Treasury. There were 11 claims totalling $30,000 for computer equipment and 16 claims totalling $13,500 for other equipment.

Recommendation

8.16 Departments should review procedures for protecting equipment against loss or damage.

MANAGEMENT RESPONSE

8.17 The responses received from departments indicate they will work toward maintaining equipment inventory in accordance with Treasury Board policy.

FINANCIAL STATEMENT AUDITS

9. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

9.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

9.2 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

9.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. An examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of the examination is the auditor's opinion as issued in the Auditor's Report.

9.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also identify problems in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

9.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

9.6 In the following sections we provide summary information on our audits of the Public Accounts and Appropriations.

10. PUBLIC ACCOUNTS

BACKGROUND

10.1 The Public Accounts include the annual financial statements of government and are the primary source of information on government's stewardship of public funds both to Islanders and to the Legislative Assembly.

10.2 The Public Accounts are prepared by the Comptroller and tabled by the Provincial Treasurer in the Legislature as required by the Financial Administration Act. According to the Act, the Public Accounts must contain the Financial Statements of the Operating Fund and the Consolidated (Summary) Financial Statements of the Province, along with any other statement required by Act to be presented. The Consolidated (Summary) Financial Statements provide the most complete information about the operating results and financial position of the Province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

10.3 The Public Accounts for the year ended March 31, 2002 consist of two volumes:

- Volume I contains the Consolidated (Summary) and the Operating Fund audited financial statements.
- Volume II contains the audited financial statements of the Crown corporations and agencies.

OBJECTIVES AND SCOPE

10.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2002. The objective of our audit was to express an opinion on the financial position and operating results of the Government. Our audit reports on the Consolidated (Summary) financial statements and the Operating Fund financial statements for the year ended March 31, 2002 did not contain any qualifications or reservations.

10.5 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

10.6 This report contains comments and observations arising from our audit of the Public Accounts for the fiscal year ended March 31, 2002.

FINANCIAL HIGHLIGHTS

10.7 Following is a comparison of revenue and expenditure for the past four years from the Consolidated (Summary) Financial Statements.

	Year Ended March 31 (Millions)			
	2002	**2001**	**2000**	**1999**
Provincial Revenue	$ 593.6	$578.7	$566.2	$515.0
Federal Revenue	410.4	383.7	355.6	359.7
	1,004.0	962.4	921.8	874.7
Expenditures	1,041.3	997.3	909.4	846.6
Surplus (Deficit)	$ (37.3)	$ (34.9)	$ 12.4	$ 28.1

DETAILED AUDIT OBSERVATIONS

Financial Statement Presentation

10.8 For the year ended March 31, 2002 the Consolidated (Summary) Financial Statements reported a deficit of $37.3 million compared to a $17.0 million deficit reported by the Operating Fund. For the past four years, the Operating Fund results were significantly different from those contained in the Consolidated (Summary) Financial Statements. Of the $20.3 million difference in 2001-02, $7.3 million pertains to the operating results of the PEI Special Projects Fund and the remaining $13.0 million relates to the operating results of Crown corporations and agencies within the reporting entity which are included in the calculation of the consolidated surplus or deficit.

10.9 Exhibit **10.1** provides a breakdown of the major components of the surplus (deficit) as recorded on the Consolidated (Summary) Financial Statements for the past four years.

EXHIBIT 10.1
CONSOLIDATED SURPLUS (DEFICIT)
($000)

	2002	2001	2000	1999
Operating Fund	$(17,038)	$(11,625)	$ (5,445)	$ 6,345
Special Projects Fund	(7,286)	(17,357)	17,427	23,500
Agencies, Boards and Crown Corporations	(12,966)	(5,945)	458	(1,746)
Consolidated Surplus (Deficit)	$(37,290)	$(34,927)	$12,440	$28,099

10.10 Deficits of Crown agencies increased in 2002 largely due to increased acquisitions of capital assets. The consolidation process requires that accounting policies of Crown agencies be adjusted to conform to the policies of government. Since the Province records the full cost of capital assets as an expenditure in the year of purchase, adjustments are required to the operating results of those agencies which are capitalizing assets.

10.11 The Consolidated (Summary) Financial Statements provide a complete picture of Government operations by including the activities of Crown corporations and government agencies. Volume 1 of the Public Accounts contains the audited financial statements of the Operating Fund and the Consolidated (Summary) financial statements. Budget estimates are prepared and included for the Operating Fund but are not prepared for the Consolidated (Summary) financial statements. Since the Consolidated Statements report the full nature of the financial affairs and resources for which Government is responsible, these statements should be the main source of financial information for the Province. Preparing the annual budget estimates on a consolidated basis would provide a basis for comparing actual performance to budgeted financial results.

Recommendation

10.12 The Public Accounts Volume 1 should contain the Consolidated (Summary) Financial Statements and corresponding Consolidated budget figures should be included for comparison. The Operating Fund Financial Statements and related Budget Estimates only relate to part of government operations and therefore should be included in Volume 2 of the Public Accounts with Crown agencies.

Special Projects Fund

10.13 The Prince Edward Island Special Projects Fund was established under the Financial Administration Act effective March 31, 1999. Pursuant to the Act, the Lieutenant Governor in Council made regulations for the Fund. These Regulations established programs through which money can be disbursed, outlined the purpose of each program, determined eligibility criteria, and the approval and disbursement process.

10.14 The Province's Operating Fund provided total grants of $48 million to the Special Projects Fund; $1 million in 2000-01 and $23.5 million in each of the previous two years. When expenditures are approved by the Special Projects Fund for designated programs a transfer is made back to the Operating Fund. When expenditures are made on each project, they are appropriated through the Operating Fund. Following are the balance sheet and statement of revenue and expenditures for the Special Projects Fund for the past four years.

Special Projects Fund
Balance Sheet

	Year Ended March 31 (Millions)			
	2002	2001	2000	1999
Current Assets				
Due from Province	$16.3	$23.6	$40.9	$23.5
Fund Balance	$16.3	$23.6	$40.9	$23.5

Special Projects Fund
Statement of Revenue, Expenditures and Fund Balance

	Year Ended March 31 (Millions)			
	2002	2001	2000	1999
Provincial Grant - Operating Fund	$ -	$ 1.0	$23.5	$23.5
Interest Income	0.6	1.9	1.0	-
Total Revenues	0.6	2.9	24.5	23.5
Expenditures	7.9	20.2	7.1	-
Excess Revenue (Expenditure)	(7.3)	(17.3)	17.4	23.5
Fund Balance, beginning of year	23.6	40.9	23.5	-
Fund Balance, end of year	$16.3	$23.6	$40.9	$23.5

10.15 Expenditures were made by the following Funds within the Special Projects Fund in the past four years:

	Year Ended March 31 (Millions)			
Fund	2002	2001	2000	1999
Health Care Stabilization Fund	$3.7	$ 6.2	$1.6	$ -
Development Fund	1.0	9.3	3.4	-
Health Research Fund	.3	.1	-	-
Sustainable Resource Support Fund	-	1.2	1.3	-
Community Development Fund	.5	.9	.8	-
Education Stabilization Fund	2.4	2.5	-	-
Total	$7.9	$20.2	$7.1	$ -

10.16 The balance in the Special Projects Fund was $16.3 million at March 31, 2002. Fund withdrawals of $12.1 million were approved for 2002-03 in the Budget Estimates. The majority of the withdrawal will be from the Health Care Stabilization Fund, with $9.6 million budgeted for the expansion of the PEI Cancer Treatment Centre and establishment of MRI services at the Queen Elizabeth Hospital.

Outstanding Debentures and Related Accounts

10.17 The largest single liability on the Province's financial statements is its outstanding debentures, which account for $1.04 billion of the Province's $1.6 billion liabilities. All of these debentures have been issued in Canadian dollars. The outstanding debentures can be broken down into public and private issues of $901.4 million and Canada Pension Plan issues of $140.3 million. The public and private issues either have a sinking fund requirement or the balance is repaid over the term of the debenture. The Canada Pension Plan issues are issued for a 20 year period and do not contain sinking fund requirements.

10.18 In January 2002, the Province issued a 30 year, $100 million public debenture. The debenture carries an interest rate of 6.25 percent and will mature in January 2032. The contributions to the sinking fund for this issue are 1.5 percent per annum.

10.19 At March 31, 2002, the Sinking Fund for debentures ($162.6 million) and the Debt Reduction Fund ($85.9 million) held combined net assets of $248.5 million.

10.20 The Debt Reduction Fund was established in June 2001 for the purpose of retiring debt and reducing interest costs. Effective April 1, 2001, funds from the Sinking Fund designated for Canada Pension Plan debentures, and previously designated funds in the Market Contingency Fund were transferred to the Debt Reduction Fund. The activity of the Debt Reduction Fund for the year is as follows:

DEBT REDUCTION FUND
SUMMARY OF FINANCIAL ACTIVITY
(Millions)

	2001-02
Balance, April 1, 2001	$ -
Transfers from Sinking Fund for Canada Pension Issues	85.9
Transfers from Market Contingency Fund	54.5
Investment Income	9.2
Payment to Pension Funds	(18.1)
Payment of Debentures	(23.8)
Payment of CPP Debentures	(.1)
Payment of Hillsborough Bridge Capital Lease	(21.7)
Balance, March 31, 2002	$85.9

10.21 As a result of our audit we noted that a number of policy changes have occurred since the release of the Sinking Fund Investment Policy several years ago. We recommended that the Sinking Fund Investment Policy be updated and approved by Treasury Board to reflect all changes to policies that have occurred since the Policy was released. Management indicated a draft Sinking Fund Policy has been completed and it will be reviewed by Treasury Board.

PEI Master Trust

10.22 Investments of the Civil Service Superannuation, Teachers' Superannuation and MLA Pension Funds are consolidated into the Province of PEI Master Trust. Individual funds receive units in the Master Trust based on the net contributions and allocated shares of income and expense. The investments are managed by investment managers external to government and an external custodian is responsible for accounting and record keeping. An Investment Advisory Committee, with representation from government and plan members, provides assistance to Provincial Treasury with the investment of the Fund assets. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

10.23 A new framework for investment of fund assets was developed and approved by Executive Council for implementation as of April 1, 2002. The new asset mix is based on a targeted 65/35 split between equities and fixed income investments while the previous asset mix had a targeted 60/40 split between equities and fixed income investments. The new investment framework provides for an increased percentage of investment in non-Canadian equities.

10.24 The market value of the pension plan assets held by the Master Trust was $744 million at March 31, 2002 compared to a market value of $679 million at March 31, 2001. The following table illustrates the components giving rise to the increase as well as the rate of return on trust assets.

PEI MASTER TRUST
CHANGE IN TRUST ASSETS
(Millions)

	2002	2001
Special contributions by Government	$18	$18
Interest and dividends	26	31
Market value gains/losses	26	(11)
Plan withdrawals and expenses less regular contributions	(5)	(15)
Total increase	$65	$23
Plan asset rate of return	7.3%	2.9%

10.25 An annual audit of the Master Trust is performed by our Office and our findings are reported to the Fiscal Management Division of Provincial Treasury. We expressed concerns regarding the adequacy of monitoring and control procedures in place for the Master Trust. The Fiscal Management Division has advised that they are currently reviewing the situation and will take appropriate action.

Public Sector Accounting Board (PSAB)

10.26 PSAB is responsible for developing generally accepted accounting principles for the public sector. PSAB issues recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending, and gaining acceptance of accounting and financial reporting practices. Following are three projects that are of particular interest to our jurisdiction.

Reporting Model for Senior Governments

10.27 In January 2003, PSAB approved a new reporting model for senior governments in Canada. The reporting model is the basis by which governments present their financial statements. This new PSAB Section is applicable for years beginning on or after April 1, 2005, although, earlier implementation is encouraged. The most significant change to our province is that tangible capital assets will be set up on the statement of financial position and amortized over their useful life on the statement of revenue and expenditure. This is a significant departure from the current accounting treatment where capital expenditures are expensed in their entirety on the Statement of Revenue and Expenditure in the year they are acquired and no value is recorded on the Statement of Financial Position. The proposed model will still highlight net debt but will include a value for tangible capital assets.

Accounting for Infrastructure in the Public Service

10.28 A PSAB Research Report entitled *Accounting for Infrastructure in the Public Service* was released in January 2003. Infrastructure assets represent a significant component of the public sector. This research report explores alternatives for accounting and financial reporting of infrastructure as assets to determine what information about infrastructure could be provided by governments.

Government Reporting Entity

10.29 PSAB undertook a project to review the accounting standards on what entities should be included in the consolidated summary financial statements due to issues with interpreting and applying the current standard. The review indicated that control should be the principal factor in determining inclusion of an entity. The revised standards are to be issued later this year.

10.30 There have been significant changes to the Province's financial statements over the years as a result of changes to address recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The 2001-02 fiscal year financial statements have for the most part been prepared in accordance with the recommendations. However, issues still remain to be addressed. The following comments summarize four of these issues.

Consolidated Budget Estimates

10.31 For many years, we have recommended that Government prepare Consolidated Budget Estimates. Currently the Government's budget focuses on the Operating Fund. This budget information is not sufficient to understand the finances of the entire government because significant amounts of revenue and expenditures are not included. Since the Province's annual surplus or deficit is the main measure of financial performance, financial statement users should be given sufficient information to compare actual results to budget. The Consolidated (Summary) Financial Statements with corresponding consolidated estimates would be a more complete document for understanding and assessing trends in government financial operations and would demonstrate public accountability for government financial performance.

10.32 PSAB Standards set as a basic requirement the inclusion of a consolidated budget with the Public Accounts. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to prepare the consolidated (summary) financial statements. Across Canada, all jurisdictions except for Prince Edward Island, Newfoundland and Labrador, and Saskatchewan are now preparing consolidated budgets. In addition, on December 1, 2000 the Standing Committee on Public Accounts recommended in its report that the Department of Provincial Treasury prepare consolidated budget estimates for approval by the Legislative Assembly.

Tangible Capital Assets

10.33 Tangible capital assets are a significant economic resource managed by government and a key component in the delivery of many government programs. Providing complete information about tangible capital assets and the related amortization in the summary financial statements demonstrates stewardship and shows the cost of using those assets to deliver programs.

10.34 In January 2003, PSAB approved a new reporting model requiring the recording of tangible capital assets on the Statement of Financial Position (balance sheet) for years beginning on or after April 1, 2005, although earlier implementation is encouraged. Prior to the January 2003 pronouncement, PSAB recommended that a Statement of Tangible Capital Assets be prepared and included as part of the government's financial statements.

10.35 The Public Accounts currently includes an unaudited schedule of tangible capital assets. We identified a number of issues regarding the tangible capital asset schedule which need further examination. Following are some of the areas requiring additional attention:

- Presently no value is provided for land. Historical cost information or best estimates need to be gathered and reported for land.
- Differences were noted in the historical cost assigned to buildings in the Schedule of Tangible Capital Assets compared to the costs recorded in the Public Accounts for the related buildings.
- Capital Expenditures for roads were being amortized at 10 percent on the declining balance basis. This area needs to be reviewed given the majority of expenditures each year would most likely be for repairs and maintenance to existing roads and not for the creation of new roads.

- The Draft Tangible Capital Asset Policy indicates that cost shall be net of any recoveries from other sources. We noted several instances where federal funding received for the purchase of various assets was not deducted from the total asset cost.

We realize that the process of gathering information to accurately present capital assets is ongoing and hope that the issues we have identified will be addressed during this process.

Retirement Related Expenditures

10.36 We are pleased to report that the Province has adopted the recommendations of PSAB in accounting for its pension and other retirement benefit obligations at March 31, 2002. The Public Accounts now includes a retirement benefit liability, benefit expenditure and interest expenditure calculated in accordance with PSAB Standards. While we are pleased that the benefit and interest expenditures are included in the financial statements, we have concerns because the presentation of these expenditures does not comply with PSAB guidance.

10.37 The Consolidated Statement of Revenue and Expenditure includes a line item called Pension Adjustment which includes a portion of the interest expenditure and the amortization of the valuation changes. This line item is not included in the total expenditures of the Province but instead is recorded as a special adjustment to the consolidated deficit. The remaining portion of the interest expenditure is included in the Public Service Commission expenditures. The interest expenditure is therefore being recorded under two separate captions, with the most significant portion being recorded below the total expenditure line on the financial statements. PSAB guidance indicates that the interest expenditure should be included in *"interest charges on debt"* and amortization of the valuation changes should be included with the retirement benefits expenditure. Although there is no effect on the current year deficit, the Province's current method of presenting interest expenditure and amortization does not comply with PSAB.

Timely Financial Statements

10.38 We continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time elapses and increased efforts are needed to have financial statements available on a more timely basis. The following schedule provides the dates that the Consolidated (Summary) Financial Statements for the years ended March 31, 2001 and 2002 were released for each jurisdiction in Canada.

Consolidated (Summary) Financial Statements
Release Dates
Years Ended March 31

Jurisdiction	2002	2001
Newfoundland and Labrador	November 25, 2002	November 28, 2001
Nova Scotia	December 20, 2002	November 16, 2001
Prince Edward Island	January 30, 2003	January 31, 2002
New Brunswick	October 4, 2002	October 1, 2001
Quebec	December 18, 2002	December 14, 2001
Ontario	November 7, 2002	September 21, 2001
Manitoba	September 30, 2002	September 28, 2001
Saskatchewan	August 1, 2002	July 20, 2001
Alberta	June 25, 2002	June 28, 2001
British Columbia	July 11, 2002	August 9, 2001
Canada	October 15, 2002	September 27, 2001

Recommendation

10.39 The Public Sector Accounting Board recommendations related to consolidated budget estimates, tangible capital assets, retirement related expenditures, and timely financial statements, should be followed.

Pension Obligation

10.40 A pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. The Province recorded this obligation in the Public Accounts for the first time on March 31, 1994. The amount of the obligation at that time was $345 million. To address this problem in 1995-96, the Province made the first payment on the $197 million in additional funding to be provided over ten years to the Teachers' and Civil Service Superannuation funds. This measure, along with high rates of return on pension fund investments and increased contribution rates, helped reduce the obligation to $126.4 million at March 31, 1998. Pension plan amendments and declining investment returns have caused this trend to be reversed with the obligation increasing to $228.8 million at March 31, 2001.

10.41 The Public Accounts have reported the following total pension obligations during the past five years:

	Year Ended March 31 (Millions)				
	2002	**2001**	**2000**	**1999**	**1998**
Pension fund liabilities	$898.7	$909.2	$858.4	$732.1	$689.4
Pension fund assets	744.8	680.4	656.0	574.3	563.0
Unfunded Pension Liability	$153.9	$228.8	$202.4	$157.8	$126.4

10.42 In 2002 the Province changed the economic assumptions used in calculating its actuarial pension liabilities. Assumptions used in calculating the current year liabilities were developed for accounting purposes which differed from funding assumptions used in previous valuations. This change in assumptions resulted in a significant reduction in the pension obligation, which declined to $153.9 million at March 31, 2002.

10.43 Pension obligations are calculated on an actuarial basis every three years. During the interim period, liabilities are estimated by the province's actuarial consultants by extrapolating the data from the most recent valuation. Projections were used in calculating these liabilities at March 31, 2002. Actuarial valuations are currently being carried out for the Province's two largest pension plans, the Teachers' Superannuation Fund and the Civil Service Superannuation Fund.

10.44 The Public Accounts report the following pension obligations for the Teachers' Superannuation Fund (TSF); Civil Service Superannuation Fund (CSSF); MLA Pension Funds (MLA); and other Pension Plans at March 31, 2002:

	Year Ended March 31 (Millions)					
	TSF	CSSF	MLA (Prior) Plan	MLA (New) Plan	Other	Total
Pension fund liabilities	$427.7	$446.2	$12.0	$1.7	$11.1	$898.7
Pension fund assets	286.7	436.1	20.4	1.6	-	744.8
Gross Pension Obligation	$141.0	$ 10.1	$ (8.4)	$ .1	$11.1	$153.9

10.45 The Teachers' Superannuation Fund accounts for approximately 92 percent of the provinces total pension obligation. Given the magnitude of the $141 million unfunded liability of the Teachers' Superannuation Fund, a long term plan to address this liability is required.

Federal Revenue

10.46 In the past we have identified problems with claims to the federal government, including items recorded in the wrong accounts and inadequate monitoring procedures to ensure that federal revenues are claimed and received on a timely basis. Similar problems were encountered in the 2001-02 fiscal year. Audit adjustments totalling $4.4 million were made to the Province's accounts to correct the accounting for federal revenue and to set up unrecorded revenue at March 31, 2002. This adjustment included a $2.2 million receivable from the Federal government, under the Memorandum of Agreement respecting Federal Contributions to Youth Justice Services and Programs, for its 2001-02 contribution. This amount was not recorded by the Province at March 31, 2002 until requested by our office in September 2002. A similar finding was reported last year with respect to this Agreement.

10.47 Timely receipt of amounts due from the federal government is a problem. Receivable balances, excluding equalization and Canada Health and Social Transfer (CHST) payments, increased from $16.9 million at March 31, 2001 to $22.8 million at March 31, 2002. A review of subsequent receipts for five larger balances totaling $18 million, revealed that $9.7 million remained uncollected at December 31, 2002.

Recommendation

10.48 Steps should be taken to ensure all revenues from the federal government are claimed and received on a timely basis.

Cancellation or Discharge of Debt

10.49 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. In 2001-02, the amount cancelled or discharged under Section 26 was $1,046,360 and the amounts written off under Section 26.1 were $1,209,624. These amounts related to the Lending Agency Act $1,062,597; the Revenue Tax Act $639,295; the Welfare Assistance Act $486,083; the Real Property Tax Act $64,175; and the Environment Tax Act $3,834.

Surplus (Deficit) of Crown Agencies and Corporations

10.50 Section 16 of the Audit Act requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus(Deficit) For the Year	Cumulative Surplus (Deficit)
Agricultural Insurance Corporation	$ (4,628,866)	$ 2,371,362
Agricultural Research Investment Fund Inc.	73,246	1,234,027
Aquaculture and Fisheries Research Initiative Inc.	55,740	800,277
Business Development Inc.	(639,662)	1,005,064
Charlottetown Area Development Corporation	(411,511)	4,923,188
Eastern School District	341,324	(607,858)
Energy Corporation	467,374	600,203
French Language School Board	(1,453)	59,942
Grain Elevators Corporation	23,173	366,173
Human Rights Commission	(9,625)	3,648
Innovative Solutions Agency (PEI) Inc.	(39,810)	245,977
Island Investment Development Inc.	(134,558)	(202,255)
Island Waste Management Corporation	47,075	(430,505)
Lending Agency	102,459	828,124
Museum and Heritage Foundation	38,020	685,153
Self-Insurance Fund	87,832	8,018,809
Special Projects Fund	(7,286,192)	16,283,919
Summerside Regional Development Corporation Ltd.	(726,078)	1,940,935
Tourism PEI	(288,506)	(82,784)
Western School Board	51,085	(410,032)
Workers Compensation Board	1,169,464	(29,919,258)

MANAGEMENT RESPONSE

10.51 These issues have been discussed with management.

11. APPROPRIATIONS

INTRODUCTION

11.1 Our audit of Appropriations for the year ended March 31, 2002 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature and special warrants approved by Executive Council on the recommendation of Treasury Board.

11.2 The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 2001-2002 were approved in the Appropriation Act 2001. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

11.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the Appropriation Act 2001.

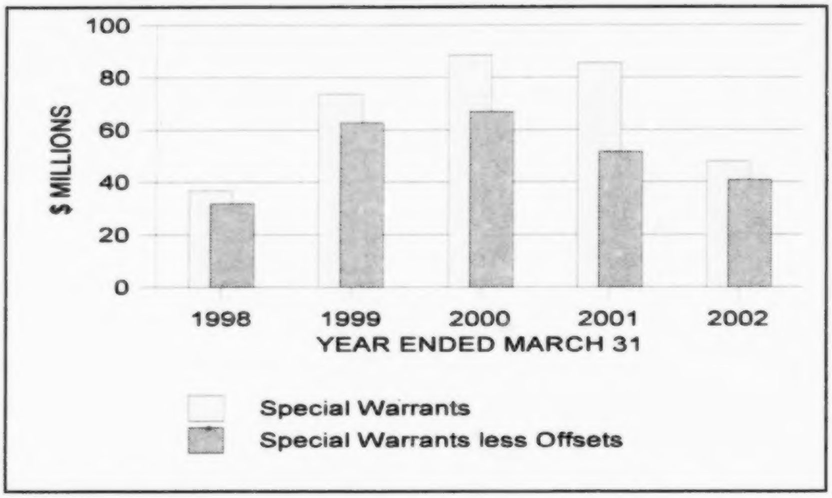
SPECIAL WARRANTS

11.4 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

11.5 For the 2001-2002 fiscal year, special warrants totalled $47.9 million compared to $85.6 million in 2000-2001. Of the special warrants issued for 2001-2002, $6.6 million was offset by revenue and $0.5 million was offset by funds sequestered from appropriations. The result was a net increase in provincial appropriations of $40.8 million.

11.6 **Exhibit 11.1** indicates the gross special warrants and special warrants net of any offsets for the last five years.

EXHIBIT11.1
SPECIAL WARRANTS



Intent of Special Warrants

11.7 According to the Financial Administration Act, with the exception of special warrants, payments are not to be made out of the Operating Fund without the authority of the Legislative Assembly. The Budget Estimates are prepared annually for the Legislative Assembly to serve as detailed support for the appropriations approved in the Appropriation Act. The Financial Administration Act provides for special warrants to be used where the Legislative Assembly is not in session, a payment is required for the public good, and there is no available appropriation. It is a requirement that special warrants be approved in the next session of the Legislative Assembly by way of a Supplementary Appropriation Act.

11.8 In 1999, we recommended that Treasury Board develop explicit criteria to determine when special warrants are appropriate under the Financial Administration Act. Provincial Treasury accepted our suggestion and agreed to review the Financial Administration Act to determine if criteria need to be developed to provide additional guidelines for the use of special warrants. In the December 1, 2000 interim report of the Standing Committee on Public Accounts it was noted that the Committee specifically discussed and reiterated this recommendation.

MANAGEMENT RESPONSE

11.9 Provincial Treasury has reviewed the issue and feels that it is not necessary to develop explicit criteria for the use of special warrants.

UPDATE ON PREVIOUS RECOMMENDATIONS

12. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

12.1 At the conclusion of each special audit, we provide an audit report including recommendations designed to improve the management and administration of government operations and programs. It is management's prerogative to select the best course of action to address the problems identified. We are primarily concerned that all recommendations are being addressed by management.

12.2 The November 2002 report of the Public Accounts Committee endorsed the observations and recommendations made in the 2002 Annual Report of the Auditor General. Further, the Committee requested that the status of implementation of the recommendations be reported in the 2003 Annual Report of the Auditor General to the Legislative Assembly. Reporting on the status of outstanding recommendations is an important step in the accountability process.

12.3 Each year, we request information from departments and agencies on the status of action taken to address outstanding recommendations. Normally this information consists of correspondence from the Deputy Minister or Chief Executive Officer of the organization. We do not always further verify or check the information received, however, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

12.4 Following is summary information provided to us on the status of recommendations from the special audits and examinations reported in the 2002 Annual Report of the Auditor General.

PEI BUSINESS DEVELOPMENT INC. GRANTS AND CONTRIBUTIONS

12.5 Following are the recommendations resulting from our audit of PEI Business Development Inc. Grants and Contributions as presented in the Auditor General's 2002 Annual Report. The status of implementation of the recommendations is provided based on information received from management of PEI Business Development Inc.

Auditor General's Recommendation	Status/Management Response
The Board of Directors should fulfil its responsibility to conduct the affairs of the corporation as required by legislation.	We were advised that this recommendation has been implemented.
The Board of Directors should establish Board policies around key aspects of the organization such as Board/management responsibility, reporting requirements of the Board, the establishment of performance targets, and approval of plans and budgets.	At the date of our follow up, no specific action had been taken but management advised that they would be presenting an operating plan and budget to the Board for review and approval.
The strategic plan for PEI Business Development Inc. should be formally approved by the Board of Directors.	Management indicated the strategic plan would be presented to the Board for approval.
Progress against the targets established in the plan should be reported to the Board of Directors on a periodic basis.	Management intends to establish appropriate measurements and set reasonable targets in the business plan and incorporate these into the annual report.
Actual job creation should be determined on a periodic basis and reported to the Board of Directors.	We were advised that appropriate measurements are under development.
Signing authority levels, as established in policy, should be followed.	Management agrees with this recommendation.

Auditor General's Recommendation	Status/Management Response
Financial information required in the terms and conditions of the Letter of Offer should be obtained and reviewed by the Development Officer.	Management stated that normal practice is to obtain financial information as required by the Letter of Offer.
PEI Business Development Inc. should monitor financial information to ensure that the terms of the Letter of Offer are followed by the client.	Management intends to establish a Compliance and Securities Clerk position in order to improve monitoring.
The Board of Directors of BDI should determine what action is required as a result of the non-compliance with covenants of the preferred share agreement and recommend appropriate action.	This has been addressed by senior staff and considered by Executive Council.
PEI Business Development Inc. should obtain audited payroll information for 1999, 2000 and 2001 as required by the Letter of Offer.	Management advised that this recommendation has been implemented.
Executive Council approval should be obtained for projects where cumulative assistance greater than $1 million is provided over more than one fiscal year.	All approvals in excess of $1 million are submitted to Executive Council.
A project evaluation should be conducted for all forms of development assistance provided through BDI.	Management agrees with this recommendation.
Grants and contributions should be supported with funding agreements which have terms and conditions accepted by the client.	Management indicated that this is normally done.
PEI Business Development Inc. should ensure that the procedures established in tax rebate agreements are followed.	Management agrees with this recommendation.

Auditor General's Recommendation	Status/Management Response
Independently prepared financial information required by the Letter of Offer should be obtained and reviewed by staff.	To address this recommendation, a sign off checklist has become part of a new cheque requisition process.
Terms and conditions of the Letter of Offer should not be revised without authorization at the level required for approval of the original assistance.	This is normally done but management intends to be more vigilant in ensuring all revisions receive the appropriate level of approval.
Criteria should be developed for all programs and approved by the Board of Directors.	Management advised that criteria are being developed and will be completed by fiscal year end.
Policies and procedures should be established to ensure appropriate control and accountability over loans including; approvals, security requirements, interest subsidies, monitoring, and collections.	Policies have been developed and submitted to the BDI Board of Directors and Treasury Board.

LOANS UNDER THE IMMIGRANT INVESTOR PROGRAM

12.6 Following are the recommendations resulting from our audit of Loans Under the Immigrant Investor Program as presented in the Auditor General's 2002 Annual Report. Information received from management of Island Investment Development Inc. on the status of implementation of the recommendations is also provided.

Auditor General's Recommendation	Status/Management Response
A comprehensive project evaluation should be performed on all applications.	Management advised that a comprehensive project evaluation is normally carried out.
All loans under the Immigrant Investor Program should be approved by Executive Council.	The Board of IIDI acknowledges the observation and will ensure all future loans are approved by Executive Council.
Audited financial statements should be provided with loan applications.	This recommendation will be followed where deemed necessary and practical.
Documented Board approval should be obtained for significant project changes, such as a change in ownership of the recipient company.	This recommendation will be implemented where practical.
The loan criteria approved by the IIDI Board of Directors should be followed. Where equity requirements are waived, Board approval should be documented in the Board minutes.	Any exceptions to criteria are now presented to the Board of Directors for consideration.
Procedures should be in place to ensure funds disbursed are used for the purpose outlined in the Letter of Offer.	Management has implemented procedures to ensure funds are used for the purpose identified in the Letter of Offer.

Auditor General's Recommendation	Status/Management Response
Island Investment Development Inc. should require client companies to provide audited financial statements annually in order to monitor performance. These financial statements should be reviewed by IIDI and explanations obtained for unusual items, such as, significant outstanding commitments.	Management advised that client compliance with loan conditions is being monitored. Performance reviews are done annually or as necessary.
Documentation should be maintained by IIDI to demonstrate compliance with federal program regulations concerning asset limitations.	Management agreed with this recommendation, however, future investments will not be subject to these same federal regulations.
Where the project proponents are replaced on a project, the effect of such action should be evaluated and if it is determined to impact the success of the project, it should be resubmitted for approval.	This is now being done if such change impacts on the conditions of the offer.
Board approval should be obtained for any settlements on loans receivable from client companies.	Any settlements in the future will be documented by a motion of the Board.
Information should be provided annually to government and the Legislature summarizing the exposure to the Province under the Immigrant Investor Program.	Management intends to prepare an annual report commencing with 2002-03 fiscal year.

ACCOMMODATIONS

12.7 Recommendations from the audit are provided below as presented in the Auditor General's 2002 Annual Report. The status of implementation of these recommendations is also provided based on information received from management of the Department of Transportation and Public Works (TPW).

Auditor General's Recommendation	Status/Management Response
The Section should require departments to use an accommodations request form that clearly details all pertinent information regarding the space requirements.	The Section is presently preparing a request form that details all the pertinent information regarding space requirements.
In accordance with Treasury Board Policy, the Section should develop accommodations and office furniture standards for review and approval by Treasury Board.	The Accommodation and Office Furniture Standards are currently being updated/redrafted and will be submitted to Treasury Board for approval.
The Section should prepare a plan containing long term objectives for space usage.	The Section is presently gathering information from all departments regarding requests for changes in space.
The Section should maintain an inventory of all owned and leased space.	An inventory of all owned and leased space has been documented.
The Section should maintain up-to-date floor plans for all owned and leased space.	The Section has revised floor plans of the PAB Complex and continues to gather information on all owned and leased property.
Responsibility for funding accommodations for Crown corporations and agencies should be clarified in policy.	Management agrees with this recommendation and will attempt to rectify this in the future.
The Section should document its assessment of tenant needs for all accommodations requested.	Management agrees that all assessments should be documented.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Section should complete the lease renewal process on a timely basis.	Management agrees that the Section should complete the lease renewal process on a timely basis.
All lease transactions should be documented in signed agreements and Treasury Board approval obtained, as required by Treasury Board Policy.	Management agrees with this recommendation.
Lease agreements should be reviewed by legal counsel before being signed and the work performed should be documented.	Management agrees with this recommendation and indicated they have been getting legal counsel to review all agreements before signing.
Where a lease agreement requires the landlord to provide a statement of operating costs, the Section should obtain the statements. The statements should be assessed for reasonableness and the amounts paid for operating costs should be supported by appropriate documentation.	The Section is attempting to obtain statements for base year costs and requires supporting documentation to be provided before paying operating costs.
The Section should only pay for costs that are outlined in the lease agreements.	Management agrees with this recommendation.
Where lease arrangements approved by Treasury Board are significantly changed, the revised arrangements should be resubmitted for further approval.	Management agrees with this recommendation.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Where applicable, a cost benefit analysis comparing leasing versus purchasing/constructing should be conducted and documented by the Section before accommodations are obtained.	Management agrees with this recommendation.
The Section should obtain accommodations through the use of a competitive process.	Management agrees a competitive process should be used where possible.
The Section should negotiate a lease arrangement for the Agriculture Research Station which clearly outlines the costs for which TPW will be responsible. The Section should attempt to obtain credit in the new leasing arrangement for past contributions toward capital improvements.	This lease has been renegotiated and the new rate reflects much lower numbers than previous years because the capital cost improvements have been considered in the negotiations.
Rent payments should only be paid in accordance with signed lease agreements.	Management agrees with this recommendation.
Approval should be obtained from Treasury Board or Executive Council for the practice of subleasing space on a rent-free basis to non-government groups. In cases where property is subleased, the arrangements should be documented in a lease agreement.	Management indicated that this recommendation will be coming into effect for all of these arrangements when leases are being renegotiated.
Transportation and Public Works should approve all tenants before they move into the Royalty Centre. The rental rates and terms should be documented in agreements.	Management is proposing that this recommendation be included in the Memorandum of Understanding between Transportation and Public Works and Sport PEI.

EMPLOYMENT DEVELOPMENT AGENCY

12.8 The recommendations resulting from the audit of the Employment Development Agency follow. These recommendations were reported in the Auditor General's 2002 Annual Report. The status of implementation of these recommendations as provided by management of Employment Development Agency is also presented.

Auditor General's Recommendation	Status/Management Response
The Board of Directors should meet on a regular basis to conduct the affairs of the Agency as required under the Employment Development Agency Act.	Management indicated that the Board met in November 2002 and intends to hold regular meetings in the future.
In accordance with the Employment Development Agency Act, an Executive Director should be appointed by the Lieutenant Governor in Council to be responsible for the day to day administration of the Agency.	Management indicated that they agreed with the recommendation and will obtain Executive Council approval.
Policies for the operation and administration of the Agency should be documented and formally approved by the Board of Directors.	The Board of Directors has approved policies.
The plan for the Agency should be formally approved by the Board of Directors.	The strategic plan for 2002 has been approved by the Board of Directors and in future annual plans will be approved by the Board of Directors.
The budget for the Employment Development Agency should be established based on realistic expenditure requirements for its programs. Special warrants should not be used as a substitute for meaningful annual budgets.	The budget for 2002-03 was approved by the Board of Directors and future budgets will be prepared based on historic and expected needs.

Auditor General's Recommendation	Status/Management Response
The allocation of funding should be based on an objective assessment of needs across the Province in relation to the mandate of the Employment Development Agency Act.	The Board considered the 2002-03 allocation and, in the opinion of the Board, it meets the needs of the Province.
The allocation of funds should be approved by the Board of Directors.	The Board of Directors reviewed the 2002-03 allocation and agreed that it meets the needs of the Province.
A job placement process including criteria for selecting applicants should be developed, documented and formally approved by the Board of Directors.	Management indicated that the Board considers the intent of EDA assistance is to assist clients in need rather than require them to fit into a program.
Documentation should be maintained to demonstrate that eligibility criteria were considered before the projects were approved.	Management indicated that eligibility requirements are verified prior to approval. The new Executive Director will review the need for additional documentation.
All applications, both rejected and approved, should be maintained on file at the Agency.	A process is now in place to ensure that all projects are recorded whether approved or declined.
All contracts should be signed prior to the initial disbursement of funds to the project.	In cases where there is no signed contract prior to the disbursement of funds, management indicated that the practice of requiring a 20 percent holdback is sufficient. Management intends to require a signed contract prior to release of the holdback.
When site visits are carried out the date, time, and observations including problems encountered should be documented in the project file.	Management indicated that information is documented when site visits are carried out.
Program guidelines should be formally approved by the Board of Directors.	The Board of Directors has approved policies.

Auditor General's Recommendation	Status/Management Response
In accordance with program guidelines, projects under the Job Creation and Placement Program should not be approved where work is carried out on behalf of private business.	We were advised that the Board of Directors revised the program guidelines to include eligibility for private sector businesses.
Program guidelines, regarding competition with the private sector, should be adhered to.	We were advised that the guideline concerning competition with the private sector has been rescinded.
The amount disbursed to project sponsors should not exceed the documented funding approved for projects.	Addendums are now used for any changes in contract amounts.
In accordance with the program guidelines, funding should only be provided by EDA to government organizations where the project is additional to their normal operations.	Management advised that the Board of Directors has rescinded the applicable guideline.
The cost per job to the Agency should be one factor considered during the budget process when determining the funding for the Jobs for Youth Private Sector Program.	The cost per job is one factor considered during the budget process. Students living in rural PEI have limited opportunities for employment in the private sector and, therefore, the Board does not intend to adjust the funding levels of the three sectors.
Project sponsors should be required to submit a summary of project results, including a statement of the original objectives and the results achieved. This information should be considered in the selection criteria for future projects submitted by the project sponsor.	Management responded that summary reports have been required from ongoing larger projects. Consideration will be given to extending this to all clients.

CASH MANAGEMENT

12.9 Following are recommendations from our audit of Cash Management, as reported in the Auditor General's 2002 Annual Report. The status of these recommendations is provided based on information received from management of Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
Cash management policies and procedures applicable to government departments and agencies should be communicated and implementation should be monitored by Provincial Treasury.	The Department continues to monitor cashflow activities on a daily basis and has prepared a pamphlet containing policies and procedures which will be regularly communicated to departments and agencies.
Provincial Treasury should tender banking services before the completion of each banking services contract.	Management intends to issue a tender for banking services prior to the completion of the current contract.
The current draft contract for banking services should be finalized as a legally binding contract between the Province and the banking institution.	The contract has been finalized.
Procedures should be implemented to verify that bank fees charged are in accordance with the banking services contract.	Management is currently in the process of reviewing and modifying existing procedures to ensure the bank fees charged are appropriate.
In accordance with the Treasury Board Policy and Procedures Manual each department should ensure that all government credit card users read and sign the Credit Card Acknowledgement form.	Procurement Services staff will continue to meet with departmental fleet coordinators to review issues including credit card issuance and will ensure credit card acknowledgement forms are obtained.

Auditor General's Recommendation	Status/Management Response
Each department should ensure that credit card slips are matched to credit card billings. Information produced by the Fleet Management System should be reconciled to the Oracle Financial System to ensure any errors or discrepancies are detected and appropriate action taken.	Error reports are generated each time the interface between the Oracle Financial System and the Fleet Management System is run. On a quarterly basis, Procurement Services will generate reports on vehicle expenses and activity, and forward the information to the department fleet coordinators for review and reconciliation.

EVERGREEN TECHNOLOGY ASSET MANAGEMENT PROGRAM

12.10 Recommendations resulting from the audit of the Evergreen Technology Asset Management Program are presented below. These recommendations were reported in the Auditor General's 2002 Annual Report. The status of implementation of these recommendations as provided by management of Technology PEI Inc. is also presented.

Auditor General's Recommendation	Status/Management Response
The Public Purchasing Act should be followed for all equipment purchases.	Management of Technology PEI advised that Treasury Board approved the initiative. The current agreement terminates August 2003. We were informed by management of Technology PEI that Treasury Board has agreed that any new computer acquisition initiative will involve staff of the Office of the Comptroller.
When economic development initiatives are being considered by government, various alternatives, including complete and accurate cost estimates, should be presented and compared before decisions are made.	Management indicated that the evaluation team considered the whole agreement, Oracle Support Services, Network Management and Evergreen. It was the opinion of the team that with one of the consortium partners entering into a Province-wide $5 million Industrial Benefits Agreement, the decision to proceed with the overall agreement was appropriate.
Management should ensure that the terms of the agreement, regarding the Asset Management System, are implemented.	Development of a replacement system was contracted and a new system has been developed. Recommended enhancements are being negotiated with the developer.

12. Update on Previous Recommendations

Evergreen Program Management should consult with MIS Coordinators to ensure problems and issues encountered by Departments related to the implementation of the Evergreen Program are addressed.	The Program Project Officer regularly attends meetings of the MIS Coordinators and receives input on their concerns.

CLAIMS PROCESSING SYSTEM FOR PHYSICIAN PAYMENTS

12.11 Recommendations from the audit are provided below as presented in the Auditor General's 2002 Annual Report. The status of the implementation of these recommendations is also presented based on information received from management of the Department of Health and Social Services.

Auditor General's Recommendation	Status/Management Response
Control totals should be calculated for each claim processing cycle and balancing procedures should be implemented to ensure there is no loss of records in the system.	Balancing procedures have been established whereby reports are generated after each payment run. The reports indicate the status of all claims in the system and ensure all records are accounted for.
The Department should ensure the necessary changes are made to the Claims Processing System so that threshold discounts are processed correctly.	The Department continues to work with the system developer to address the discounting of payments to physicians where their individual threshold has been reached. Until the issue is resolved, staff are monitoring individual physician thresholds.
The reports produced by the Claims Processing System should be improved so that data is presented consistently, totals agree with supporting data, year-to-date payment totals agree with bank payment totals, and complete information on the various types of payments is provided.	The Department continues to work internally and, as required, with the system developer to ensure that all reports from the Claims Processing System are meeting user's needs. The process of developing and enhancing standard, uniform reports is an evolutionary one and is expected to continue.
Modification capabilities should be restricted to a small number of individuals.	The Department has assigned responsibility for controlling the updating and modifying of data in the system to one position with a designated back up. The majority of users now have "view only" access.

The system should identify individual users who have updated the records.	Changes have been implemented to the Claims Processing System to identify the last user who modified a record.

HEALTH INFORMATICS

12.12 Following we present the recommendations resulting from the audit of Health Informatics. These recommendations were reported in the Auditor General's 2002 Annual Report. The status of the implementation of these recommendations as provided by management of the Department of Health and Social Services is also presented.

Auditor General's Recommendation	Status/Management Response
Health Informatics management should ensure the directions identified in the Island Health Information System Strategic Plan are consistent with the strategic plan for the Health Sector.	The Health Informatics Section is now in a position to complete a review of the Health Information System Strategic Plan to ensure it is consistent with the Department's plans.
The Section should ensure that all of the services contained in the network management services agreement are being provided by the supplier.	The Section is in the midst of a full network re-configuration. The Section has identified a network service agreement as a requirement in this process.
The Section should ensure that signed agreements are in place to support payments for services received.	New quotations have been negotiated for line and equipment rentals. The Section is developing an agreement for signature which reflects the new schedule of costs and service expectations.
Current service agreements should be reviewed before they are renewed over the next few years to determine if they represent the best use of Department resources.	The Department, in conjunction with the lead agency, Technology PEI, is participating in a review of the current service agreements.
The Section should use competitive processes to acquire consultants.	Management indicated that, in some cases where follow up is necessary, using the original consultant is an efficient and cost effective means of completing the work. However, consideration will be given to employing a competitive process for retaining consultants in the future.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Evaluations should be conducted for each project completed.	The Section has adopted the Project Management Methodology and is performing evaluations on each completed project.

PUBLIC ACCOUNTS COMMITTEE

13. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

13.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It provides an important link in the accountability process. Through the Committee proceedings members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public assets.

13.2 The Committee currently consists of six members and is chaired by the Leader of the Official Opposition. Its responsibility includes the review of the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

13.3 The Committee held a number of meetings to review the observations and issues raised in the Auditor General's 2002 Annual Report. The Auditor General at that time, Mr. Wayne Murphy, appeared before the Committee on five occasions and assisted in their deliberations by providing further information, explanation and clarification on a number of issues raised in the Annual Report.

13.4 In November 2002, the Committee provided a report to the Legislature on its proceedings. In that report the Committee endorsed all the recommendations and observations made in the 2002 Report of the Auditor General. In addition, the Committee requested the implementation of these recommendations be followed up and their status be reported in the Auditor General's next report to the Legislative Assembly.

13.5 Through its deliberations the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to working with the Committee and assisting it in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

14. OFFICE OF THE AUDITOR GENERAL

MANDATE AND MISSION

14.1 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government. Authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

14.2 Under the Act, the Auditor General has a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently in compliance with the applicable statutory requirements.

14.3 The mission of the Office of the Auditor General is

- to conduct independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly; and
- to promote best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

14.4 The Audit Act sets out the responsibilities of the Auditor General. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two main types of assignments - financial audits, and special audits and examinations.

14.5 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown agencies.

14.6 The mandate allows the Auditor General to conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. Special examinations may include work on compliance with applicable authorities on a government-wide basis. In addition, the Act allows for special assignments or investigations at the request of the Lieutenant Governor in Council.

14.7 The Office performs an important service to the Legislative Assembly. In some cases where government reports information about its performance we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances we audit government programs directly and report our findings to the Legislative Assembly and the public. The reports resulting from these assessments include recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

14.8 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The Audit Act establishes the legal framework for an independent audit office. The key components in building that independence include:

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out the audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive any information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

14.9 In addition, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Audit Planning

14.10 Each year an audit work plan is developed consistent with the audit priorities established by the Office and the resources available. The annual work plan includes a number of financial statement audits as well as special audits and examinations.

14.11 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a particular division or program. Audits are sometimes carried out on a particular function on a government-wide basis.

14.12 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of revenues/expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

14.13 Occasionally the Office is requested by Executive Council or the Legislative Assembly to carry out an examination or review for a particular purpose. This year we were requested by Executive Council to conduct a review involving regulatory and governance issues related to the Credit Unions Act.

Professional Standards

14.14 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

14.15 Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. They are designed to ensure that our audits are properly planned, conducted, and reported and that audit findings are based on well substantiated evidence.

14.16 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

14.17 The Office experienced a significant change this year with the retirement of Auditor General, Wayne Murphy. Mr. Murphy served his position with a high degree of integrity and professionalism and we wish him well in his retirement. In addition, an Audit Director retired during the past year.

14.18 The Office staff complement consists of two audit directors, ten auditors and two administrative staff. We plan to fill one auditor position and four other auditor positions will remain vacant due to lack of budgetary resources. With our limited staff we strive to provide audit coverage of significant areas of government on a cyclical basis.

14.19 Under the Audit Act, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer. On an annual basis, the Committee reviews the budget estimates of the Office.

14.20 For the year ended March 31, 2003 budgeted expenditures for the Office amounted to $1,229,600 as follows.

	2002-03 Budget Estimate
Administration	$ 29,300
Equipment	9,200
Materials, Supplies, and Services	9,800
Professional and Contract Services	32,500
Salaries	1,103,800
Travel and Training	32,800
Contribution - CCAF	12,200
Total	$1,229,600

Professional Affiliations

14.21 As an Office we strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. The Office maintains a close association with a number of professional organizations, and experience and methodology is shared with a view to contributing to the continuing development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Council of Legislative Auditors (CCOLA) - The meetings of the Council bring together legislative auditors from the federal government and the provinces and provides an opportunity for information exchange, discussion, and development and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various committees.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

14.22 In accordance with its mandate, the Office has established two broad goals:

(I) ***To promote improved accountability for, and management of, public funds.***

(II) ***To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

(i) To prepare an Annual Report for the Legislative Assembly, as required under the Audit Act, on the results of the audits that have been carried out.

14.23 The Annual Report provides information on significant issues and recommendations resulting from our work. We expect that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provide the impetus to bring about the improvements recommended in the Report.

14.24 The 2002 Annual Report of the Auditor General was tabled in the Legislative Assembly on March 27, 2002. The Report was referred to the Public Accounts Committee and a number of meetings were held to discuss the Annual Report and provide additional information and explanations to the Committee.

(ii) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

14.25 An unqualified opinion was provided on the Public Accounts for the year ended March 31, 2002. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown Corporations, Pension and Trust Funds, and other Agencies. This process provides assurance to the taxpayers, through the Legislative Assembly, on the fairness of information reported by government.

(iii) To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

14.26 The Office has a limited amount of resources to carry out its work. Many of the financial statement audits which we perform are required under legislation. The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

14.27 Our special audits and examinations provide information and assurance on the management of public resources in a number of areas. We provide advice and make recommendations to improve management controls and practices where problems are identified.

(iv) To perform other investigations as may be required from time to time.

14.28 Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our reports. This year we performed a specific review as requested by the Lieutenant Governor in Council.

14.29 It has been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits. This is part of the legislative audit function which provides important feedback to the Public Accounts Committee, and assists in its role of holding government accountable.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vii) To remain aware of and provide input to the development of public sector accounting standards.

(viii) To build leadership within the Office by providing professional development and training opportunities for staff.

14.30 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep up to date on emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board and the Assurance Standards Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology.

14.31 Audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional conferences, seminars and meetings.

SCHEDULES

SCHEDULE "A"
PAGE 1 OF 2

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 2001/2002	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 2001/2002	EXPENDITURES 2000/2001
AGRICULTURE AND FORESTRY	$32,610,800	($526,000)	$32,084,800	$409,000	$328,100	$32,821,900	$31,349,403	$51,222,609
PEI GRAIN ELEVATORS CORPORATION	165,000	-	165,000	-	-	165,000	165,000	316,228
OFFICE OF THE ATTORNEY GENERAL	28,680,400	-	28,680,400	599,100	574,400	29,853,900	29,853,365	27,774,601
AUDITOR GENERAL	1,229,400	-	1,229,400	-	34,300	1,263,700	1,138,267	1,069,700
COMMUNITY AND CULTURAL AFFAIRS	18,161,300	-	18,161,300	4,546,700	202,800	22,910,800	20,120,846	14,249,053
DEVELOPMENT AND TECHNOLOGY	7,031,200	-	7,031,200	1,267,500	96,300	8,395,000	8,324,519	13,387,294
TECHNOLOGY ASSET MANAGEMENT	1,631,000	-	1,631,000	-	-	1,631,000	1,630,748	495,139
PEI BUSINESS DEVELOPMENT INC.	28,286,600	-	28,286,600	700,000	152,700	29,139,300	28,859,100	44,383,800
EMPLOYMENT DEVELOPMENT AGENCY	4,091,800	-	4,091,800	1,821,400	9,900	5,923,100	5,073,784	5,127,987
PEI ENERGY CORPORATION	306,200	-	306,200	-	11,700	317,900	312,900	299,500
EDUCATION	197,185,000	-	197,185,000	2,862,200	1,948,000	201,995,200	201,939,200	191,126,149
ISLAND REGULATORY AND APPEALS COMMISSION	1,065,100	-	1,065,100	-	-	1,065,100	1,065,100	1,065,100
EXECUTIVE COUNCIL	2,266,400	526,000	2,792,400	325,300	63,100	3,180,800	2,918,093	2,901,605
FISHERIES, AQUACULTURE AND ENVIRONMENT	7,950,000	-	7,950,000	1,265,100	132,700	9,347,800	9,286,497	8,070,898
HEALTH AND SOCIAL SERVICES	340,442,600	-	340,442,600	2,969,600	8,889,900	352,302,100	350,432,082	328,404,754
EAST PRINCE HEALTH FACILITY	13,000,000	-	13,000,000	7,141,500	-	20,141,500	20,141,476	5,894,881
LEGISLATIVE ASSEMBLY	3,067,300	-	3,067,300	-	35,400	3,102,700	2,921,923	3,652,466

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 2001/2002	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 2001/2002	EXPENDITURES 2000/2001
PROVINCIAL TREASURY	$18,609,200	$ -	$18,609,200	$ -	$438,300	$19,047,500	$18,248,613	$16,890,713
GENERAL GOVERNMENT	17,106,400	-	17,106,400	4,600,000	(14,001,600)	7,704,800	6,467,995	6,748,703
PEI LENDING AGENCY	783,900	-	783,900	-	27,800	811,700	733,900	786,400
COUNCIL OF MARITIME PREMIERS	183,700	-	183,700	-	-	183,700	183,656	183,700
INTERMINISTERIAL WOMEN'S SECRETARIAT	340,200	-	340,200	-	5,100	345,300	321,753	317,387
PEI PUBLIC SERVICE COMMISSION	5,177,100	-	5,177,100	68,700	106,700	5,352,500	5,299,690	5,320,392
EMPLOYEE BENEFITS	10,738,100	-	10,738,100	16,273,400	-	27,011,500	24,636,585 **Note 2**	15,895,278
TOURISM	161,800	-	161,800	-	1,800	163,600	90,225	139,086
TOURISM PEI	10,634,900	-	10,634,900	958,200	109,700	11,702,800	11,702,667	10,109,747
TRANSPORTATION AND PUBLIC WORKS	70,300,100	-	70,300,100	78,000	808,400	71,186,500	70,835,140	70,239,213
INTEREST CHARGES ON DEBT	108,971,700	-	108,971,700	-	-	108,971,700	105,622,835	107,743,234
TOTAL ORDINARY	$930,177,200	$ -	$930,177,200	$45,885,700	($24,500)	$ 976,038,400	$959,675,362	$933,815,617
CAPITAL								
TRANSPORTATION AND PUBLIC WORKS	28,955,700	-	28,955,700	2,000,000	24,500	30,980,200	30,966,595	29,344,721
GRAND TOTAL	$959,132,900	$ -	$959,132,900	$47,885,700	$ -	$1,007,018,600	$990,641,957	$963,160,338

Note 1: Expenditures for 2000-2001 have been reclassified to conform with the current year's presentation.

Note 2: Expenditures in Employee Benefits are classified as follows:

Regular	$15,953,854
Pension adjustment	8,682,731
Total expenditures	$24,636,585

The 2001-2002 Public Accounts shows the Pension Adjustment as a special adjustment item after total expenditures and, as a result, the amount is not included in the Total Ordinary Expenditures of the Province at year end.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE AND FORESTRY		
EC 2001-475	NATURAL RESOURCES		
	Salaries	$ 405,000	
	Travel	4,000	$ 409,000
	To transfer the budget of the Forestry Program from the Employment Development Agency to the Department of Agriculture and Forestry. The expenditure was to be offset 100 percent by the sequestration of funds originally budgeted in the Employment Development Agency.		
	OFFICE OF THE ATTORNEY GENERAL		
EC 2002-125	LEGAL AND JUDICIAL SERVICES		
	Administration	$ 44,700	
	Salaries	64,500	
	Professional and contract services	66,400	
	Equipment	95,000	
	Material, supplies and services	200	
	CROWN ATTORNEY		
	Professional and contract services	23,300	$ 294,100
	To provide funding for excess expenditures in the Office of the Attorney General for the 2001/2002 fiscal year.		
EC 2002-275	POLICY AND ADMINISTRATION		
	Native Council	$ 18,700	
	LEGAL AND JUDICIAL SERVICES		
	Professional and contract services	271,800	
	CROWN ATTORNEY		
	Professional and contract services	5,000	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	COMMUNITY AND CORRECTIONAL SERVICES		
	Professional and contract services	$ 9,500	$ 305,000
	To provide funding for excess expenditures in the Office of the Attorney General for the 2001/2002 fiscal year.		
	Total		
	COMMUNITY AND CULTURAL AFFAIRS		$ 599,100
EC 2001-476	POLICY AND ADMINISTRATION		
	Grants		$ 4,404,400
	To cover commitments under the Canada/Prince Edward Island Physical Infrastructure Program - Municipal Component Agreement. The expenditure was to be partially offset by $2,202,200 in federal revenue and $800,000 in revenue from the Special Projects Development Fund.		
EC 2002-126	PLANNING AND INSPECTION SERVICES		
	Equipment	$ 129,600	
	Materials, supplies and services	7,000	
	Travel and training	5,700	142,300
	To establish a Provincial Hazardous Materials Team. The expenditure was to be partially offset by $106,700 in federal revenue under the terms of the Joint Emergency Preparedness Program.		
	Total		$ 4,546,700
	DEVELOPMENT AND TECHNOLOGY		
EC 2001-549	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
	Grants		$ 336,900
	To provide funding for projects under the Community Development Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		
EC 2002-127	REGIONAL ECONOMIC DEVELOPMENT AGREEMENT		
	Economic Development Leadership Agreement		580,600
	To provide funding for projects under the Regional Economic Development Agreement. The expenditure was to be offset 100 percent by federal revenue.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2002-276	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
	Grants		$ 350,000
	To provide funding for projects under the Community Development Program.		
	Total		$ 1,267,500
	PEI BUSINESS DEVELOPMENT INC.		
EC 2002-132	BUSINESS DEVELOPMENT		
	Development assistance		$ 700,000
	To provide funding for the construction of a test cell in Slemon Park. The facility will be used to test repaired and overhauled aircraft engines.		
	EMPLOYMENT DEVELOPMENT AGENCY		
EC 2001-417	JOB CREATION AND PLACEMENT		
	Grants	$1,677,600	
	JOBS FOR YOUTH		
	Grants	77,200	
	Salaries	66,600	$ 1,821,400
	To provide funding to meet demands for job creation project placements.		
	EDUCATION		
EC 2001-500	ENGLISH PROGRAMS		
	Grants		$ 137,900
	To provide funding for a SchoolNet Grassroots initiative. The expenditure was to be offset 100 percent by federal revenue.		
EC 2001-619	ENGLISH PROGRAMS		
	Salaries		84,300
	To provide funding for the SchoolNet Youth Employment Initiative. The expenditure was to be offset 100 percent by federal revenue.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2002-128	CORPORATE SERVICES AND SCHOOL BOARD OPERATIONS		
	Grants - School unit administration	$ 690,000	
	CONTINUING EDUCATION AND TRAINING		
	Grants - Post secondary	300,000	$ 990,000
	To fund commitments for the Student Financial Assistance Program and school boards deficits for the fiscal year ending June 30, 2001.		
EC 2002-416	CORPORATE SERVICES AND SCHOOL BOARD OPERATIONS		
	Grants - School unit administration		1,650,000
	To provide funding for school board deficits for the fiscal year ending June 30, 2002.		
	Total		$ 2,862,200
	EXECUTIVE COUNCIL		
EC 2001-441	FREEDOM OF INFORMATION AND PROTECTION OF PRIVACY IMPLEMENTATION		
	Administration	$ 20,600	
	Equipment	22,900	
	Materials, supplies and services	9,800	
	Professional and contract services	2,500	
	Salaries	197,300	
	Travel and training	22,200	$ 275,300
	To cover costs of the implementation of the Freedom of Information and Protection of Privacy Act. The expenditure was to be partially offset by the sequestration of $30,200 in funds originally budgeted in the Department of Community and Cultural Affairs and $15,500 in funds originally budgeted in the Department of Development and Technology.		
EC 2002-71	INTERGOVERNMENTAL AFFAIRS		
	Professional and contract services		50,000
	To provide funding for expenditures under the Canada/Prince Edward Island General Agreement on the Promotion of Official Languages. The expenditure was to be offset 100 percent by federal revenue.		
	Total		$ 325,300

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	FISHERIES, AQUACULTURE AND ENVIRONMENT		
EC 2002-94	FISHERIES AND AQUACULTURE		
	Grants		$ 1,250,000
	To provide funding for an Oyster Aquaculture Loan Reduction initiative.		
EC 2002-129	WATER RESOURCES		
	Materials, supplies and services		15,100
	To provide funding for excess expenditures in the Department of Fisheries, Aquaculture and Environment for the 2001/2002 fiscal year. The expenditure was to be offset 100 percent by increased revenue.		
	Total		$ 1,265,100
	HEALTH AND SOCIAL SERVICES		
EC 2002-118	CANCER TREATMENT CENTRE EXPANSION AND MRI SERVICES		
	Professional and contract services		$ 215,000
	To cover consulting services and architectural fees for the expansion of the P.E.I. Cancer Treatment Centre and the MRI addition at the Queen Elizabeth Hospital. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Care Stabilization Fund.		
EC 2002-119	DEPARTMENT MANAGEMENT/SERVICES		
	Grants		177,000
	To cover expenditures for the Health Research Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Research Fund.		
EC 2002-130	HEALTH INFORMATICS AND VITAL STATISTICS		
	Administration	$ 27,600	
	Equipment	320,000	
	Materials, supplies and services	80,000	
	Professional and contract services	2,020,000	
	Travel and training	40,000	
	Grants	90,000	2,577,600
	To cover expenditures relating to the ISM/PACS Project. The expenditure was to be partially offset by $1,577,600 in federal revenue under the terms of the Canada Health Infostructure Partnership Program.		
	Total		$ 2,969,600

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	EAST PRINCE HEALTH FACILITY		
EC 2002-131	Professional and contract services	$ 424,000	
	Grants	6,000,000	$ 6,424,000
	To provide funding for construction costs of the East Prince Health Facility.		
EC 2002-558	Grants		717,500
	To provide funding for construction costs of the East Prince Health Facility.		
	Total		$ 7,141,500
	GENERAL GOVERNMENT		
EC 2002-95	SALARY NEGOTIATIONS		
	Salaries		$ 4,600,000
	To cover additional forecast expenditures for negotiated union agreements.		
	PEI PUBLIC SERVICE COMMISSION		
EC 2001-595	STAFF DEVELOPMENT		
	Materials, supplies and services .	$ 2,000	
	Salaries	66,700	$ 68,700
	To provide funding for additional French Language Training to federal government employees. The expenditure was to be offset 100 percent by federal revenue.		
	EMPLOYEE BENEFITS		
EC 2003-68	EMPLOYEES FUTURE BENEFITS		
	Interest on Unfunded Pension Liabilities	$4,750,100	
	Early Retirement Pay	2,791,300	
	Regular Retirement Pay	752,000	
	GOVERNMENT'S PENSION CONTRIBUTIONS		
	Interest on Unfunded Pension Liabilities	7,980,000	$16,273,400
	To cover expenses incurred to comply with Public Sector Accounting Recommendations, as well as expenses incurred under the Workforce Adjustment Program.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
	TOURISM PEI		
EC 2002-120	PARKS		
	Administration	$ 8,400	
	Equipment	10,700	
	Materials, supplies and services	185,700	
	Professional and contract services	18,000	
	Salaries	198,800	
	Travel and training	9,000	
	TOURISM MARKETING		
	Administration	27,600	
	Development assistance	500,000	$ 958,200
	To provide funding for an expanded tourism marketing campaign, the operation of the Mill River Fun Park, and increased expenditures in the Provincial Parks. The expenditure was to be partially offset by an increase in revenue of $272,500.		
	TRANSPORTATION AND PUBLIC WORKS		
EC 2002-121	ACCOMMODATIONS		
	Equipment	$ 36,000	
	Professional and contract services	42,000	$ 78,000
	To fund costs of the move of East Prince Health and Human Resource Development Canada to the Access P.E.I. building in Summerside.		
	TRANSPORTATION AND PUBLIC WORKS - CAPITAL		
EC 2002-122	HIGHWAYS		
	Development costs		$ 2,000,000
	To fund expenditures for highway projects.		